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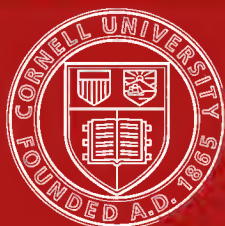
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U. S.
DEPARTMENT OF COMMERCE AND LABOR
BUREAU OF CORPORATIONS

LUTHER CONANT, Jr., Commissioner

THE
International Harvester Co.

MARCH 3, 1913



WASHINGTON
GOVERNMENT PRINTING OFFICE
1913

E. V.

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LETTERS OF TRANSMITTAL.

DEPARTMENT OF COMMERCE AND LABOR,
OFFICE OF THE SECRETARY,
Washington, March 3, 1913.

SIR: I have the honor to transmit herewith a report of the Commissioner of Corporations on the International Harvester Co. This report deals largely with the organization, capitalization, profits, and competitive methods of that company and its present position in the farm-machinery industry.

Very respectfully,

CHARLES NAGEL,
Secretary.

The PRESIDENT.

DEPARTMENT OF COMMERCE AND LABOR,
BUREAU OF CORPORATIONS,
Washington, March 3, 1913.

SIR: I have the honor to transmit herewith a report on the International Harvester Co., made to the President under your direction and in accordance with the law creating the Bureau of Corporations. This report deals largely with the organization, capitalization, profits, and competitive methods of the International Harvester Co. and its present position in the farm-machinery industry.

I desire to mention as especially contributing to the preparation of this report Mr. Francis Walker, the Deputy Commissioner, and Messrs. Le Claire Hoover, Harry C. McCarty, and Worthy P. Sterns, of this Bureau.

Very respectfully,

LUTHER CONANT, Jr.,
Commissioner.

To HON. CHARLES NAGEL,
Secretary of Commerce and Labor.

LETTER OF SUBMITTAL.

DEPARTMENT OF COMMERCE AND LABOR,
BUREAU OF CORPORATIONS,
Washington, March 3, 1913.

SIR: I have the honor to submit herewith a report on the International Harvester Co.

ORGANIZATION OF INTERNATIONAL HARVESTER CO.

The International Harvester Co. was organized in 1902 as a consolidation of the five principal manufacturers of harvesting machines in the United States, namely, the McCormick Harvesting Machine Co., Deering Harvester Co., Plano Manufacturing Co., the Warder, Bushnell & Glessner Co., and the Milwaukee Harvester Co. The companies thus consolidated had in 1902 about 90 per cent of the total production of grain binders in the United States, and about 80 per cent of the total production of mowers, the two chief kinds of harvesting machines. The principal outside makers of harvesting machines were located in New York State, and their market was chiefly confined to the North Atlantic States and to the export trade.

The interests included in the combination had previously been in keen competition. An attempt made in 1890 to establish a general consolidation of makers of harvesting machines was a failure, and from that time until the merger, competition was severe. In fact, it has been asserted that the combination was virtually forced by such competition. However, the two most important concerns, namely, the McCormick and Deering companies, were making large profits just prior to the merger, and two of the other companies merged were making at least fair profits. Obviously, therefore, it can not be contended that this competition was destructive.

It has been represented in formal testimony by officers of the company and its financial promoter, G. W. Perkins, then of the firm of J. P. Morgan & Co., that its organization was not the result of concerted action by the former competing owners, but merely of the purchase of their properties by new and outside interests. Documentary evidence gathered by the Bureau completely disposes of this contention and shows that the principal competing interests considered and discussed among themselves the formation of this combination and were active in bringing it about.

The chief features of the International Harvester Co.'s operations are the substantial maintenance of its monopolistic position in the harvesting-machine business, originally acquired through combination, and its extensions on a large scale into new lines of the farm-machinery industry. The company has been able to do this in part through the acquisition of some of its chief rivals in the harvesting-machine business; in part by using its monopolistic advantage in these harvesting-machine lines to force the sale of its new lines; in part by certain objectionable competitive methods; and especially through its exceptional command of capital, itself the result of combination.

ACQUISITIONS OF COMPETING CONCERNS.

Almost immediately after its organization the International Harvester Co. commenced the acquisition of competing makers of harvesting machines. In January, 1903, it secretly acquired control of D. M. Osborne & Co., of Auburn, N. Y., its chief competitor. This secret control was maintained for nearly two years, during which the Osborne company was operated and advertised as an independent concern. Two of the chief stockholders of the Osborne company agreed to refrain from engaging independently in the same lines of business for a period of 10 years. Again, the combination, between 1903 and 1904, acquired and secretly operated several other competing harvesting-machine concerns, namely, the Minnie Harvester Co., the Aultman-Miller Co., and the Keystone Co. In some cases it was contended that the concealment of ownership was employed to facilitate liquidation of certain accounts of the purchased concerns.

Negotiations for the acquisition of several other harvesting-machine concerns were not consummated; in some cases the initiative came from the competitors.

EXTENSIONS INTO NEW LINES.

The company's acquisition of competitors in harvesting machines was followed by extension of its manufacture into numerous new lines, partly by the purchase of established concerns. Among the most important of such lines were tillage implements, manure spreaders, farm wagons, gasoline engines, tractors, and cream separators. The extension of the company into these lines was directly furthered by its substantially monopolistic control of the harvesting-machine business. It is obvious that the possession of a monopolistic position in that important branch of the business afforded a powerful lever for forcing the sale of its new lines.

COMPETITIVE METHODS.

The competitive methods employed by the company have been the subject of much complaint. Some of these complaints relate to practices which, like the use of the exclusive clause in agency contracts and the operation of purchased companies as independent, were at one time extensively practiced, but which have since been abandoned. As above noted, some of these acquired concerns were openly advertised as independent.

Among the most important complaints charged against the company in recent years is an effort to secure an undue proportion of local dealers in farm machinery by allotting, as a rule, only a single brand to any one dealer in the same place, thus tending to restrict the outlet for competitors' goods. The company's own records show that this was one purpose at least in making this distribution of its brands, and it appears to have had some practical effect in handicapping competition.

Compulsion of dealers to take the company's "new" lines by reason of its monopolistic control of harvesting machines ("full-line forcing") has been attempted with more or less success by the company's representatives. Attempts to secure the exclusive handling of certain lines of the company by similar methods were also reported to the Bureau.

Special discriminatory prices and terms have been reported in a number of instances, but the general policy of the company is to maintain high prices in the monopolized lines; in the principal new lines, however, where considerable competition is encountered, unusually low prices and long terms have been generally employed.

Another rather general complaint is that salesmen of the International Harvester Co. represent that purchasers of competing lines of harvesting machines will be unable to secure repair parts, a matter of much practical importance. Officers of the International Harvester Co. admit that this was at one time a common characteristic of competition in the harvesting-machine industry, but that the company is opposed to the practice and has used active efforts to eliminate it. The Bureau, however, received rather numerous complaints of this character.

The company at one time openly attempted, through a clause in its commission contracts, to control the price paid for its machines by the farmer to the retail dealer. Since the elimination of this clause, "suggested" retail price lists have been rather generally circulated by some of its branch offices, apparently for the purpose of indirectly maintaining the retail price, although the company contends that these lists are intended for the use of its employees

in furnishing information to purchasers and professes to discourage their issuance to dealers. It is evident, however, that it could completely stop this practice if it really wished to.

SUPERIOR RESOURCES.

The company's exceptional financial resources, including its connections with J. P. Morgan & Co. and John D. Rockefeller, constitute one of the chief sources of its power. They not only enable it to secure the economies of large-scale operations, which, as a rule, give it marked advantages in manufacturing costs, but also enable it to maintain a very elaborate selling organization, by virtue of the variety and extent of its business. Furthermore, they give it a great advantage in extending credits to purchasers, an exceedingly important feature of the farm-machinery industry. While apparently any such use of credits has not been a controlling factor in restricting competition, it appears to have been felt to some extent in certain lines, and is one of the chief sources of complaint from manufacturers as distinct from dealers in farm machinery.

PRESENT POSITION.

As a result of the developments and practices above described, the position of the combination has changed from that of a maker of harvesting machines only, until it is now an important factor in several other branches of the farm-machinery business. In manure spreaders it appears to have over one-half of the business, and in disk harrows approximately 40 per cent; and it is increasing its proportion in several other new lines, such as wagons and gasoline engines.

New competition has, however, begun to appear, especially from certain large plow and tillage-implement makers, whose fields have been invaded by the combination, and who likewise have arranged to establish a "full line;" that is, a large assortment of the chief kinds of farm implements. This new competition is apparently of great significance. However, in 1911 the company still had about 86 per cent of the production of binders, 78 per cent of the production of mowers, and 72 per cent of the production of rakes.

INVESTMENT AND CAPITALIZATION.

The extraordinary overcapitalization which characterized most of the large industrial consolidations of the period 1898 to 1901 was absent in the case of the International Harvester Co. The original capital stock was \$120,000,000. The "cash stock" of \$60,000,000 appears to have been paid up in full. The appraisal value of the plants, inventories, etc., for which the remaining \$60,000,000 of stock

was issued was \$67,000,000; the Bureau places the value of these physical properties at, roughly, \$49,000,000. The bankers and promoters received \$3,700,000 stock for their expenses and services.

It is worth noting that certain ore leaseholds acquired by the Deerings about seven months before the merger for \$675,000, of which \$500,000 was paid in notes, were valued for purposes of consolidation, after deduction of this indebtedness, at no less than \$7,963,000. The price paid by the Deerings was rather more than the current average value of Mesabi leases at the time. It is claimed that during the period that the Deerings had owned these leases there had been some increase in the estimated tonnage of these ore properties, but no evidence was produced to indicate any great increase in their value. However, in order not to undervalue them, the Bureau arbitrarily allowed an increase of \$500,000, and also added about \$100,000 expended for improvements, etc. This is probably too liberal, but the resulting net valuation is over \$7,000,000 less than that claimed by the International Harvester Co. The high valuations placed on these ore properties caused much dissatisfaction among the combining interests themselves, especially on the part of the McCormicks. The banking interests back of the International Harvester Co., however, had only a few weeks earlier claimed an extravagant value for ore in defending the capitalization of the United States Steel Corporation in important litigation then pending, and they were therefore in no position to deny excessive valuations for this Deering ore.

In several other respects the appraisal valuations were clearly excessive. However, after deducting such excesses, the Bureau, as indicated, found that the value of the physical properties plus the working capital covered substantially 90 per cent of the capital stock issued. The company claimed a large value for good will, but has not entered any good-will value in its accounts. It is not unlikely that a fair valuation for good will would have covered the difference between the original capitalization and the tangible assets.

A much larger capitalization was at one time contemplated. For purposes of consolidation, the fixed properties, good will, and inventories, exclusive of working capital, were nominally valued in the first instance at \$132,000,000. This figure, however, was grossly excessive. Furthermore, the subsequent appraisal value of the physical properties (excluding good will) of \$67,000,000, above noted, was later written down to \$60,000,000. In this connection it may be noted that inventories which were appraised at \$25,550,000 were later reduced for "trading purposes" to \$18,155,000.

In 1907 the capital stock was rearranged by making \$60,000,000 a 7 per cent preferred issue, leaving the common stock at \$60,000,000.

In 1910 \$20,000,000 additional common stock was issued as a stock dividend, making the total capitalization \$140,000,000.

The stock of the company has been closely held by the former interests. The McCormick and Deering families have throughout held a large majority of the total stock, while considerable amounts have also been retained by a few other stockholders. This fact assumes especial importance in view of the pending dissolution suit of the Government against the company.

Recently, on account of this suit, the company has been split into two corporations, one of which, the International Harvester Co. of New Jersey, retains the old harvesting-machine plants and related business; the other, the International Harvester Corporation, takes over the new lines and foreign business. Each of these concerns is capitalized at \$70,000,000. If this is intended as part of a plan for ultimate disintegration of the combination, in the opinion of the Bureau it is unsatisfactory.

PROFITS.

There has been a marked increase in the earnings of the International Harvester Co. From a distinctly low rate early in its organization they have risen to a rather high rate in recent years. For the entire period 1902 to 1911 the average rate of net earnings on net assets, as computed by the Bureau (exclusive of good will), is $8\frac{1}{2}$ per cent. However, for the three years 1909 to 1911 the average was $12\frac{1}{2}$ per cent. As computed by the company on capital stock and surplus, the average for the entire period is $7\frac{1}{2}$ per cent, and for the years 1909 to 1911, $10\frac{1}{2}$ per cent. The rate in 1911 was somewhat less than in 1909. Returns for 1912 are not yet available.

The increase in recent years is more significant because in certain of the new lines, which the company has been pushing aggressively, the rate of return is comparatively low. This means that the rate of return on some of the older monopolized lines has been very high. Thus, the rate of profit for grain and grass harvesting machines is very much higher than the rates for such lines as wagons, manure spreaders, and twine, where the company encounters a greater degree of competition. The rate on some of the new lines, however, has been liberal.

Generally speaking, the prices obtained by the company on foreign sales are relatively higher than those in the domestic market, but claims made by the company that the net return is invariably greater were not sustained by its records; in some important instances at least the foreign nettings were lower than the domestic.

CONCLUSION.

It appears, therefore, that the International Harvester Co.'s position in the industry is chiefly attributable to a monopolistic combination in the harvesting-machine business, certain unfair competitive methods, and superior command of capital.

Very respectfully,

LUTHER CONANT, Jr.,
Commissioner of Corporations.

The PRESIDENT.

REPORT OF THE COMMISSIONER OF CORPORATIONS ON THE INTERNATIONAL HARVESTER CO.

SUMMARY.

This investigation was conducted in pursuance of a resolution of the United States Senate which directed especial attention to the operations of the International Harvester Co., and to the question whether there existed among local dealers in farm machinery a healthy competition. On the latter subject a more detailed report is contemplated later. The essential features of the operations of the International Harvester Co., as developed by the investigation, are:

A substantially monopolistic position—85 per cent of the total output—in the harvesting-machine business proper at the beginning. Organization of combination terminated a long period of severe, but by no means destructive, competition among the concerns merged.

Combination arranged by the former owners in connection with bankers, and not, as frequently asserted, a mere sale of their properties to new interests.

An absence of important overcapitalization. Substantially 90 per cent of the original \$120,000,000 capital stock covered by tangible property and working capital. There was in addition a considerable real good will.

Acquisitions of competitors and extensions into new lines, until to-day the company is also an important factor in certain other branches of the farm-machinery industry.

Low rates of profit in early years, partly owing to imperfect organization and internal jealousies, but much higher rates in recent years, averaging about 12½ per cent in 1909–1911 on net assets (exclusive of good will) as estimated by the Bureau.

Much higher rates of profit on investment in highly monopolized lines, such as harvesting machines, than in certain “new” lines, i. e., wagons, manure spreaders, etc.

Prices of machines sold in foreign markets generally higher to retailer and farmer than in United States, but in some cases a lower margin of profit in export trade.

Low manufacturing costs of harvesting machines compared with the average costs of independents; an elaborate selling organization and ability to grant extensive credits to purchasers. These advantages due to large volume of business and superior financial resources.

Extensive use especially in early years of objectionable competitive practices, e. g., the exclusive clause in dealers' contracts (later abandoned), monopolization of dealers, "full line forcing," discriminatory price concessions, attempted control of retail prices. These methods less extensively practiced in recent years, but still the source of much complaint. Of over 800 dealers interviewed by the Bureau, about one-half criticised unfavorably the company's methods; some of these complaints unimportant.

Recent expansion by some of the largest makers of farm implements into the harvesting-machine business, making them, like the International Harvester Co., "full-line concerns." This development apparently one of great importance.

Monopolistic position of the International Harvester Co. in harvesting machines thus far substantially maintained, while it now controls a considerable and increasing percentage of the business in new lines.

CONDITIONS LEADING UP TO ORGANIZATION OF INTERNATIONAL HARVESTER CO.

The International Harvester Co. was organized in August, 1902, under New Jersey laws, as a consolidation of the following companies:

McCormick Harvesting Machine Co.

Deering Harvester Co. (a partnership).

Warder, Bushnell & Glessner Co. (Champion).

Plano Manufacturing Co.

Milwaukee Harvester Co.

These concerns were the principal manufacturers of harvesting machines. In fact, the only other important manufacturers of such machines were a few companies located in New York State, engaged largely in trade with foreign markets, none of which did an extensive business in the principal domestic market for harvesting machines, namely, the grain-producing States of the Mississippi River basin.

The organization of the company followed a long period of keen competition among manufacturers of harvesting machines. An earlier attempt (in 1890) to bring about a general consolidation of the principal manufacturers of such machines proved abortive. Although a formal organization was effected in that year under the name of the American Harvester Co., with \$35,000,000 authorized capital stock, this had hardly been accomplished before the scheme fell through. From that time down to the organization of the Inter-

national Harvester Co., the harvesting-machine industry appears to have been peculiarly free both from efforts at consolidation and also from the ordinary price agreements which were characteristic of many industries. In fact, the formation of the International Harvester Co. has repeatedly been attributed by some of its principal officers to the severity of competition during this period.

Cyrus H. McCormick, president of the company, in testimony in judicial proceedings in Missouri in 1908, described this competition as "fierce," and stated that a desire to remove what he termed "un-businesslike methods" was one of the principal reasons for forming the consolidation. He further stated that during this period of competition a large portion of the sales of the competing companies were made below the listed prices.

Again, J. J. Glessner, formerly of the Warder, Bushnell & Glessner Co., makers of the Champion machines, referred to the competition as a "bitter fight," stating that his concern did everything that it possibly could to prevent its competitor from making a sale.

Still again, W. H. Jones, formerly of the Plano Manufacturing Co., stated explicitly that the merger was organized to abolish "fierce competition." This is shown by the following excerpt from his testimony in the Missouri proceedings:

Q. So in order to get rid of this fierce competition you formed this new organization?—A. We had to do it or wind up the business. If we had not, we would have thrown all our men out of employment. The best thing to do was to get rid of the fierce competition, to get rid of the waste of money in canvassers. We have not half as many canvassers to-day as we did have.

Q. The canvassers were necessary to maintain your competition?—A. Before that, we did it to beat one another out of business.

Q. Is that not what you call competition?—A. Pretty sharp competition.

Q. It was to get rid of that you made your combination?—

A. Yes, sir; to better the entire thing; no question about that.

While it has also been claimed that economies of consolidation and the possibility of developing more satisfactorily the export trade were likewise considerations in bringing about the merger, it may be accepted as established that the principal reason for the formation of the International Harvester Co. was the elimination of the competition complained of.

The severity of this competition has frequently been set forth as a full justification for the combination. It is important to point out, therefore, that notwithstanding this competition the profits in the business were large. Thus, the profits of the five combining concerns during the five years 1898-1902 aggregated nearly \$43,000,000, or an average of nearly \$8,600,000 a year. In the case of the McCormick concern, the profits for the year preceding the merger were nearly 12 per

cent of the net assets as shown by its books, while those of the Deering business were nearly 18 per cent of such book assets, and those of the Milwaukee Harvester Co. over 11 per cent. Data for comparisons in the case of the other two companies are not available, but the profits of these apparently were smaller. These 1902 profits may have somewhat overstated the net earnings available for dividends, and the book assets are not an entirely satisfactory criterion for judging their exact significance, but it is certain that such profits were liberal. During this interval, moreover, there was a very great expansion in the volume of business of these companies. It is apparent, therefore, that while competition was severe it was by no means destructive.

It may be noted that many of the basic patents for harvesting machinery had expired, and were open to all who cared to engage in the manufacture of such machinery.

METHODS BY WHICH THE COMPANY WAS ORGANIZED.

Representatives of the company, and particularly of its financial organizers, have repeatedly insisted, at times in sworn testimony, that the combination was not brought about by the concerted action of the interests united, but instead that the five concerns were purchased independently the one of the other by the banking interests, and subsequently merged into a single organization.

These assertions may be sufficiently disposed of by citing from a statement made by Stanley McCormick and Cyrus Bentley, legal counsel of the McCormicks, to G. W. Perkins on June 27, 1902, in New York City, and confirmed by a typewritten memorandum left with Mr. Perkins after having been revised at the head offices of the McCormick concern. This statement, which is given in full in this report, contained repeated references to conferences between representatives of the harvesting machine companies themselves, as the following excerpts show:

The McCormick and Deering people, in talking over how they might get together, estimated in the matter of good will that about two average years' profits ought to represent the good will of each company's business. In negotiations, not a great while ago, the Deerings rather expressed the opinion that if the McCormick and Deering companies were to come together it ought to be on a basis of about 53 for the McCormick company and 47 for the Deering, while the McCormicks' figures had been anywhere from 55 to 60 for the McCormick company and 40 to 45 for the Deering company. * * *

Mr. Glessner is president of this [the Champion] company. Mr. Harold McCormick saw him three or four weeks ago and sounded him as to what he would think of the several harvesting machine companies getting together. Mr. Glessner seemed to be very much interested in having it done, and said that his

company would not be particular as to details or as to what influence would predominate. * * *

Mr. W. H. Jones is president of this [the Plano] company, and is the dominating influence. Mr. O. W. Jones, his brother, is vice-president. He visited Mr. McCormick about four weeks ago, and in a casual way asked if something could not be done in the way of combination. He remarked: "If you and I were appointed a committee of two to put this through, it wouldn't take us a week to wind it up"—giving the impression that he was anxious to see it put through. * * *

Mr. Deering has approached both the Plano and Champion companies, but so far as is known he has no option on either one. * * * The Deerings have indicated that they would prefer not to sell for cash, but would take securities and keep an interest in the management of the new organization.

Mr. Deering has urged that the whole trade be taken into the combination. Against this it has been suggested to him that if only 90 per cent were brought in, it would be quite possible to deal with another of the minor companies if any one made excessive demands. That is, no minor company is probably essential to the combination, although the five named are undoubtedly the most desirable.

It is therefore conclusively established by documentary evidence that a consolidation of the five leading harvesting-machine makers had been considered, not merely by the bankers, but actively considered and discussed by the leading interests themselves, and this for a considerable period prior to the organization of the company. These discussions had specifically covered the relative values of some of the combining companies, the policy to be adopted with respect to other concerns than the five mentioned, and also the question as to who should have a controlling interest in the new organization. Moreover, the McCormick interests assisted the bankers in arranging for the acquisition of the Milwaukee Harvester Co.

TERMS OF CONSOLIDATION.

The process by which the merger was actually accomplished involved a number of formal legal transactions. On July 28, 1902, four separate agreements were entered into between the McCormick, Deering, Plano, and Champion concerns, respectively, called the "vendors," and William C. Lane, called the "purchaser," all in substantially the same general form, but differing in certain details. These contracts set forth that the respective vendors were the owners of certain plants for the manufacture of harvesting machines, and that Lane, the purchaser, desired to acquire them for the purpose of selling them to a company to be formed subsequently, and referred to as the "purchasing company." In pursuance of these contracts and certain subsequent agreements, it was arranged

that for the plants and other physical properties thus conveyed, together with the entire property of the Milwaukee Harvester Co., which was put in by the bankers as a going concern, and for the payment of the bankers' commission, \$60,000,000 of stock was to be issued. An additional \$60,000,000 of stock was to be issued for \$60,000,000 cash. Of this amount \$19,000,000 was to be contributed by the bankers and their associates, and \$41,000,000 by the four vendor companies, as follows: McCormick, \$20,000,000; Deering, \$16,000,000; Plano, \$4,000,000; Champion, \$1,000,000. By a subsequent arrangement, however, the McCormick and Deering interests agreed to contribute about \$9,000,000 additional working capital, so that only about \$10,000,000 was directly raised by the bankers. The payment of most of the working capital provided by the vendor companies was arranged through the assignment of bills receivable for collection.

The contracts further provided that the purchase price of the physical properties should equal their appraised value. Provision was made for valuing the good will on the basis of two years' profits, plus 10 per cent. These arrangements were subsequently modified by additional contracts.

Immediately after the contracts of August 11, 1902, were entered into, the International Harvester Co. was organized by a group of temporary or "dummy" incorporators, the certificate of incorporation being filed in New Jersey on August 12, 1902. Temporary directors were elected, who at once took under consideration a written offer from W. C. Lane to transfer the plants, good will, and other property, excluding receivables, of the McCormick, Deering, Plano, and Champion concerns, together with the Milwaukee company as a whole, and working capital of \$60,000,000. The plants, good will, etc., were nominally valued at \$132,000,000, thus making a total nominal value of \$192,000,000. In payment therefor Mr. Lane offered to accept the entire capital stock of the International Harvester Co., namely, \$120,000,000 par value, subject to a provision that if any additional stock were issued by the company prior to July 1, 1903, on account of the nominal surplus of \$72,000,000, then this original \$120,000,000 of common stock should become preferred stock and the additional stock should be common stock, to be issued to the holders of the preferred, pro rata.

On August 13, 1902, W. C. Lane and E. H. Gary (chairman of the United States Steel Corporation) appeared before the temporary board of directors and explained Lane's offer, which was promptly accepted. Resolutions were adopted to the effect that the properties and working capital were worth the amount stated by Lane (\$192,000,000), and that the treasurer should enter the proper amounts in the books of account, including a surplus of \$72,000,000.

This surplus of \$72,000,000 was entirely arbitrary, and, in fact, wholly fictitious. It is obvious that at the time it had not been definitely decided whether the company should be organized with a capitalization approximately commensurate with the value of its assets or whether it should issue stock greatly in excess of that capitalization.

On the same day (August 13) the new stockholders took control of the company. The temporary directors resigned, and 18 directors were elected in their places. Of these 18 directors, 10 were largely interested in the four companies merged; 3 others had been connected with such concerns or individuals as counsel; 4 represented either the bankers (J. P. Morgan & Co.), or capitalists associated with them; the only remaining director was put in to comply with the corporation laws of New Jersey requiring a resident director.

On the same day also the temporary officers of the company resigned and the principal officers elected in their places were as follows: Cyrus H. McCormick, president; James Deering, Harold F. McCormick, W. H. Jones, and J. J. Glessner, vice presidents; Richard F. Howe, secretary and treasurer. The executive committee, of which Charles Deering was made chairman, included the principal representatives of four of the companies merged, and G. W. Perkins, who was also made chairman of the finance committee.

An important step in carrying out the original contracts of July 28, 1902, with the principal companies entering the merger, namely, the establishment of a voting trust, was made on August 13 by execution of the voting trust agreement and the appointment of the following persons as voting trustees, namely, George W. Perkins, Charles Deering, and Cyrus H. McCormick.

The actual consummation of the merger, as explained in more detail in the full text of the report, involved certain additional contracts. This was due to the fact that since the contracts of August 11, 1902, limited the total issue of capital stock to \$120,000,000, and since \$60,000,000 of this was to be issued for working capital, there would have been nothing left for the bankers and promoters or for the purchase of the Milwaukee Harvester Co. in case the appraisal of the physical properties of the four vendor companies amounted to as much as \$60,000,000. The contemplated compensation of the bankers was \$3,000,000 in stock, and the cost of the Milwaukee company (put in by the bankers), together with certain expenses, amounted to more than \$3,500,000. If these items were to be provided for, therefore, there would be only about \$53,500,000 of stock left to pay for the plants and other physical properties of the four vendor companies. It was agreed, therefore, by an additional contract dated August 17, 1903, that certain specified amounts

of stock should be allotted to each of the vendor companies in lieu of the amounts to be determined by the appraisals. The amounts agreed upon, subject to slight adjustments, were as follows:

McCormick company-----	\$26,321,656.86
Deering company-----	21,362,554.64
Champion company-----	3,372,185.91
Plano company-----	2,193,603.09
Total-----	<u>53,250,000.50</u>

It will be seen, therefore, that the elaborate appraisals made of the physical properties of the vendor companies really did not determine the amounts of stock issued. Subsequently, however, these appraisals, when completed, were used to some extent for bookkeeping purposes. The final allotment of the \$120,000,000 capital stock of the International Harvester Co., except for a small amount of the expense stock, is briefly summarized in the following table:

DISPOSITION OF ORIGINAL \$120,000,000 CAPITAL STOCK OF INTERNATIONAL HARVESTER CO.

Plant stock.

J. P. Morgan & Co.	
Commission-----	\$3,000,000.00
Less contribution to Champion and Plano companies-----	<u>42,857.14</u>
	2,957,142.86
Milwaukee Harvester Co-----	<u>3,000,000.00</u>
	\$5,957,142.86
McCormick interests:	
Original allotment-----	26,321,656.86
Less contribution to Champion and Plano companies-----	<u>59,142.86</u>
	26,262,514.00
Deering interests:	
Original allotment-----	21,362,554.64
Less contribution to Champion and Plano companies-----	<u>48,000.00</u>
	21,314,554.64
Plano interests:	
Original allotment-----	2,193,603.09
Plus contributions from other in- terests-----	<u>75,000.00</u>
	2,268,603.09
Champion interests:	
Original allotment-----	3,372,185.91
Plus contributions from other in- terests-----	<u>75,000.00</u>
	3,447,185.91
Organization expenses (excluding Mil- waukee company and incorporators' stock):	
Sold-----	611,803.34
On hand-----	<u>138,196.16</u>
	749,999.50
	<u>\$60,000,000.00</u>

*Cash stock.***J. P. Morgan & Co. :**

Cash-----	\$9, 940, 000. 00
Incorporators -----	60, 000. 00
Milwaukee excess-----	148, 196. 66
	<hr/> \$10, 148, 196. 66

McCormick interests :

Original subscription-----	20, 000, 000. 00
Subsequent subscription-----	4, 886, 190. 13
	<hr/> 24, 886, 190. 13

Deering interests :

Original subscription -----	16, 000, 000. 00
Subsequent subscription-----	3, 965, 613. 21
	<hr/> 19, 965, 613. 21

Plano interests ----- 4, 000, 000. 00

Champion interests----- 1, 000, 000. 00

\$60, 000, 000. 00

The table is in the main explained by the preceding discussion. It will be noticed that certain small amounts were deducted from the "plant stock" issued to the bankers and to the McCormick and Deering interests, together aggregating \$150,000, this amount being divided equally between the Champion and Plano interests. Again, while \$3,000,000 of stock was allotted for the acquisition of the Milwaukee Harvester Co., on actual appraisal the value was established at \$3,148,196.66. The excess was issued to the bankers out of the cash stock. The banking interests also raised \$10,000,000 of cash capital (including \$60,000 paid in by the temporary incorporators). The remaining cash capital was raised by the various manufacturing interests as indicated in the table.

Of the \$120,000,000 capital stock of the company, \$103,144,660.98, or 86 per cent, was received by the McCormick, Deering, Champion, and Plano interests. The McCormick interests alone received \$51,148,704.13, or 42.6 per cent, and the Deering interests \$41,280,167.85, or 34.4 per cent. These two groups together, therefore, received no less than 77 per cent of the total capital stock. As a matter of fact, while the voting trust technically gave the McCormick, Deering, and Morgan interests equal voice in the management of the company, the predominating influence appears to have been with the McCormick interests.

POSITION OF THE INTERNATIONAL HARVESTER CO. AT ITS ORGANIZATION.

At its organization the International Harvester Co. controlled approximately 85 per cent of the total production of harvesting machines in the United States. While exact data on production are not available, statistics of sales show that in binders the companies composing the new combination had handled approximately 90 per cent in the business year prior to the merger; in mowers, about

81 per cent; and in rakes, about 67 per cent. This is shown by the following comparison of sales in the 1902 season:

	Sold by International Harvester Co. companies, season of 1902. ¹		Sold by independent companies, season of 1902. ²	
	<i>Number.</i>	<i>Per cent.</i>	<i>Number.</i>	<i>Per cent.</i>
Binders.....	180,024	90.9	18,128	9.1
Mowers.....	297,880	81.2	68,890	18.8
Rakes.....	165,219	67.0	* 81,376	33.0

¹ Number produced in case of the Milwaukee company.

² Number produced in case of the Osborne company.

* Number for independents partly estimated.

The important machines were binders and mowers, and combining these it may be safely said that 85 per cent of the business was handled by the new consolidation at its organization.

The McCormick company had much the largest production for each class of harvesting machines; the Deering company was second in each case. The Champion concern stood third with respect to binders and mowers, while the Milwaukee had the smallest output for all the principal machines.

COMPARISON OF CAPITALIZATION WITH INVESTMENT.

As already shown, of the capital stock of \$120,000,000 at the time of organization, \$60,000,000 was issued for plants, inventories, and similar property, and \$60,000,000 for working capital. The appraised value of the property acquired by the \$60,000,000 of "plant stock," so called, was \$67,000,000, exclusive of good will, and the company claims therefore that it started with a surplus of \$7,000,000. This surplus was later written off. As a matter of fact, this appraisal of \$67,000,000 for the property acquired by the plant stock was in excess of a fair valuation, exclusive of good will. As shown below, the Bureau has arrived at a valuation for this property of only about \$49,100,000. The difference between this and the \$60,000,000 of stock issued therefor must be regarded as having been issued for promotion services and good will.

VALUE OF PHYSICAL PROPERTIES AND INVENTORIES.

In the first instance, it should be noted that the Bureau experienced great difficulty in arriving at a satisfactory valuation of the property acquired by the company. The company has repeatedly asserted that it did not have the original books or records of the constituent companies, and the representatives of some of those companies, moreover, persistently refused or evaded compliance with the Bureau's request that they produce them. Moreover, the available records were in unsatisfactory shape. No such records were secured for the Champion and Plano concerns. For the McCormick, Deering, and Milwau-

kee companies, however, certain data taken from the books or submitted to the bankers were obtained, and since the property acquired from these three companies together comprised 90 per cent of the total appraised value of the plants and inventories the data secured covering them enabled the Bureau to arrive at a fairly close determination of the total value of this class of property.

The results of the Bureau's analysis for the McCormick and Deering concerns are compared with the old book values and with the values adopted by the International Harvester Co. in the following table:

MCCORMICK HARVESTING MACHINE CO.: VALUATIONS OF PHYSICAL PROPERTIES, 1902.

	Book.	Harvester Co.	Bureau.
Factory real estate.....	\$1,341,149.12	\$4,993,909.00	\$3,772,032.80
Factory buildings and machinery.....	5,845,858.10	7,401,692.92	6,895,942.99
Agency property.....	1,176,306.11	1,571,905.85	1,549,557.71
Illinois Northern Ry.....	(¹)	2,553,944.31	485,264.71
Timber.....	314,950.65	314,363.86	314,363.86
Miscellaneous.....	520,764.23	886,842.39	655,150.80
Inventory.....	² 10,562,793.59	11,738,822.70	9,818,476.54
Total.....	19,761,821.80	29,461,481.03	23,490,789.41

DEERING HARVESTER CO.: VALUATIONS OF PHYSICAL PROPERTIES, 1902.

Factory real estate.....	\$670,642.45	\$1,563,165.63	\$1,260,775.86
Factory buildings and machinery.....	2,579,231.38	5,523,041.88	5,070,274.73
Agency property.....	226,495.26	471,898.94	417,904.31
Ore, coal, iron, and steel.....	³ 1,589,093.31	9,511,400.44	1,795,588.57
Timber.....	275,567.88	1,560,436.36	525,189.12
Miscellaneous.....	⁴ 356,773.01	546,511.66	515,706.32
Inventory.....	⁵ 8,060,598.58	8,905,059.78	7,271,265.98
Total.....	13,758,401.87	28,081,514.69	16,856,704.89

¹ Leasehold and equipment not separately booked by McCormick Co.; equipment included apparently in item of factory buildings and machinery (appraised at \$53,944.31).

² Includes on hand freight and duty (\$231,504.15) as shown by appraisal; not shown in McCormick balance sheet.

³ Without deduction of purchase-money obligations of \$916,753.40, which are deducted in the Harvester Co. and Bureau valuations.

⁴ Not including Mann property, appraised at \$28,414.89 and at \$34,532.68, respectively.

⁵ Includes \$240,590.18 on hand freight and duty, not shown in Deering data.

In explanation of these tables it should be stated that for most of the property of the two chief vendor companies the organizers of the International Harvester Co. had two appraisals made. Almost invariably the higher of these appraisals was selected by the International Harvester Co. in making up its valuations. This fact alone is strongly suggestive of a tendency to overvalue. In most cases even the lower appraisals were decidedly higher than the old book valuations. Representatives of the International Harvester Co.,

however, have insisted that the entries on the books of the predecessor companies were not a reliable indication of the true values of the property in 1902. While in the opinion of the Bureau these book valuations certainly appear in some cases to be a far better indication of the real value of the property than are the values adopted by the Harvester Co. itself, nevertheless, in view of the element of doubt, the Bureau as a rule did not use these book valuations, but instead established valuations according to its best judgment in the light of all available data and after full consultation with the Harvester Co. representatives. In some cases the Bureau adopted the lower appraisals, while for the Champion and Plano companies all the properties except the inventories have been put in at the appraised values adopted by the International Harvester Co. In some cases collateral evidence sustained the book valuations.

The most striking differences between the valuations adopted by the Bureau and those adopted by the International Harvester Co. occur in the ore and timber properties of the Deering interests, in the factory real estate and in the industrial railroad of the McCormick interests, and in the inventories of materials and products for all companies combined.

DEERING ORE PROPERTIES.—The Deerings purchased about January, 1902, or about seven months before the merger, two ore leaseholds on the Mesabi range, the Hawkins and the Agnew, for \$525,000 and \$150,000, respectively. Of the purchase price of the Hawkins, \$350,000 was in notes, making the net investment value at the time of purchase only \$175,000. The Deerings expended \$46,996.57 on this property for development, etc. It was valued for purposes of consolidation, after deduction of indebtedness, at \$5,770,000. In the case of the Agnew the entire purchase price, \$150,000, was in notes. The Deerings had expended \$54,284.18 for improvements, etc. It was valued, after deduction of indebtedness, at \$2,193,750. In both cases the notes were still outstanding at the time of transfer to the International Harvester Co. and were assumed by it.

In the case of leasehold ore property the current value of the equity is ordinarily expressed by the bonus; that is, the price at which the leasehold is or can be transferred. The bonus value in the case of the Hawkins mine was about 4 to 6 cents per ton of the estimated deposit, and in the case of the Agnew mine about 3 to 4 cents. The Bureau in this investigation and that of the steel industry found that the average rate of bonus on ten Mesabi leasehold mines, including the Hawkins and Agnew, which were transferred during 1902, was approximately $3\frac{1}{2}$ cents. The valuations assigned the equity in these mines by the International Harvester Co., however, amounted to $42\frac{1}{2}$ cents for the Hawkins per ton of ore in the ground and $37\frac{1}{2}$ cents for the Agnew, or several times the respective bonuses actually paid.

These were absurdly high valuations. The Bureau is satisfied that there were no unusual conditions surrounding the purchase of the Hawkins and Agnew mines which indicated that the value of these leaseholds was exceptional. Representatives of the International Harvester Co. claimed, however, that there had been some increase in the estimated tonnage of the deposit during the interval that the Deerings had held the property. While the Bureau is disposed to regard the price paid by the Deerings as fairly expressing the value in August, 1902, it arbitrarily added \$500,000 to that price to make certain not to undervalue this ore. Adding thereto the cost of improvements, etc., made in the interim, and deducting, as in the appraisal, the purchase-money obligations, gives a net value of \$776,280.75 instead of the appraised value of \$7,963,750. It is undoubtedly true that these leaseholds are to-day worth much more than this sum, but this obviously has nothing to do with their value in 1902.

It is important to consider that the bankers who dominated the organization of the International Harvester Co., also organized the United States Steel Corporation, officers of which had only a few weeks before in important litigation then pending against that company submitted affidavits to the effect that the value of its ore, taking leaseholds and fee indiscriminately, was \$700,000,000, or approximately \$1 per ton. Mr. Perkins, to whom was left the appraisal of these ore properties and who was also chairman of the finance committee of the Steel Corporation, was therefore in no position to deny an excessive valuation for this Deering ore. The valuation placed on this Deering ore was vigorously opposed by the McCormick interests, and a final book value was reached only after several years of controversy, and after the distribution of the company's stock had been decided upon.

DEERING TIMBER PROPERTIES.—In the case of the Deering timber properties, there was likewise a very great overvaluation. The most important of these properties, namely, that in Missouri, was acquired by the Deering interests mostly in 1899, at a total cost of approximately \$250,000, which was the value entered on their books. This was transferred to the books of the Harvester Co. at about \$1,535,000. This valuation, however, was not established before 1905, and then only by a single appraiser, who was largely interested in the timber business. The valuation was admitted by a representative of the Harvester company to be excessive. The timber was almost entirely hardwoods. Information obtained by the Bureau in the course of its investigation of the lumber industry indicated that for hardwoods in this particular locality the advance in value during the three-year period from 1899 to 1902 (that is, during the period that this timber was held by the Deering interests) would on the average

be less than 50 per cent. In order to be liberal, however, the Bureau allowed an increase of 100 per cent, giving this timber a valuation of \$500,000. This, it will be seen, is about \$1,035,000 less than the valuation claimed by the International Harvester Co.

McCORMICK REAL ESTATE.—In the case of the factory real estate of the McCormick company, the higher appraisal fixed the value at \$4,994,000, while the lower appraisal fixed it at \$2,550,000. This land was carried on the books of the McCormick concern at only \$1,341,000. There was a considerable division of opinion among experts called in to value this property, and a representative of the accountants who had charge of these appraisals, now an official of the Harvester company, while of the opinion that a majority had favored the higher appraisal was not altogether clear on this point. Furthermore, he stated that "inasmuch as the capitalization included no good will, we concluded that there could be no question about our adopting the higher valuation if the directors so decided."

This reference to good will clearly indicates that the higher appraisal was excessive. The Bureau regards it as possible that the lower appraisal was a full valuation, but as there was some doubt on this point it allowed the average of the two appraisal values, or \$3,772,000.

ILLINOIS NORTHERN RAILWAY (McCORMICK).—The book valuation of the franchise of this company, according to the balance sheet for the year 1903, was only \$431,000, and its equipment was appraised at \$54,000, which together make \$485,000. The International Harvester Co. adopted a valuation of \$2,554,000, of which \$2,500,000 was for the franchise alone. It relied for this valuation largely on a statement by J. E. Gorman, at that time general freight agent of the Santa Fe. His valuation, however, was almost entirely based upon the earning capacity of the road, and, furthermore, upon freight divisions which were grossly exorbitant, and which were shortly afterwards (1904) condemned by the Interstate Commerce Commission and reduced from \$12 a car to \$3.50 a car, in accordance with its ruling. Mr. Gorman specifically stated that the road would not be worth anywhere near his valuation if it were owned merely by an ordinary railroad company like the Santa Fe. The evidence of overvaluation in this case was conclusive, and the Bureau simply allowed the value of \$485,000 shown above.

INVENTORIES.—The inventories of the five combining companies were valued on the International Harvester Co.'s books at \$25,548,000. This was admittedly a high valuation. Under the contracts of merger raw materials were to be taken over at market value instead of at cost, and on September 30, 1902, market values were generally high, and for iron and steel products exceptionally so. These appraisal inventories were made in great detail, and included consid-

erable miscellaneous property not ordinarily considered in inventory taking. No allowance was made for depreciation of finished machines nor for old models carried over. The overvaluation of these inventories is, moreover, conclusively proved by the fact that the International Harvester Co. itself in 1904, when making up its accounts for 1903, wrote them down from \$25,548,000 to \$18,155,000, on the specific ground that they were entered too high for "trading purposes." The company, however, claims that the higher valuation of \$25,548,000 should be allowed by the Bureau in computing the assets, although the company itself wrote off most of the reduction from its surplus. The Bureau's position is, especially as the company was a merger of going concerns, that a valuation which is proper for trading purposes is also proper for purposes of reckoning assets. However, the Bureau, after extended consideration of the company's contentions on this point, is satisfied that the reduction of these inventories to \$18,155,000 was unduly severe, and apparently was made because otherwise the company's accounts for 1903 would have shown a loss, although this is flatly denied by the company's representatives. The real values, as nearly as could be established by the Bureau from the rather confused records, aggregated about \$22,730,000. In these book valuations, however, no deduction had been made for depreciation of finished machines, which, under the condition of the trade at that time, apparently was considerable. The Bureau made an arbitrary allowance of \$1,500,000 for depreciation, thus leaving the net value of these inventories at \$21,230,000.

These and various other adjustments made by the Bureau in certain items are fully discussed in the text.

The net result of the Bureau's readjustment of the valuations was to give a total of \$49,117,356.08 as the aggregate valuation of the physical property and inventories acquired by the International Harvester Co. from the five companies forming the combination, as follows:

FIVE PREDECESSOR COMPANIES: VALUATIONS OF PHYSICAL PROPERTIES, 1902.

[N. B.—No book values available for Champion and Plano, therefore total book valuations can not be given.]

	Harvester Co.	Bureau.	Difference.
Factory real estate, buildings, and machinery.....	\$23,270,218.14	\$20,787,435.09	\$2,482,783.05
Agency property.....	2,249,882.33	2,173,539.56	76,342.77
Railroads.....	2,579,324.82	510,645.22	2,068,679.60
Ore, coal, iron, and steel.....	9,574,138.79	1,858,326.92	7,715,811.87
Timber.....	1,874,800.22	839,552.98	1,035,247.24
Miscellaneous.....	1,979,702.93	1,717,206.00	262,496.93
Inventories.....	25,548,162.42	21,230,650.31	4,317,512.11
Total.....	67,076,229.65	49,117,356.08	17,958,873.57

¹ For Milwaukee company includes net working capital other than inventory after deducting \$148,196.66 for plant stock excess.

The Bureau believes that while this valuation might be somewhat reduced if all the facts were available, any adjustment which would be made would not be of decisive importance. This maximum valuation of \$49,100,000 compares with \$60,000,000 "Plant stock" issued for such property and for promoters' expenses and services. This, as already noted, leaves a difference of, roughly, \$10,900,000 to be represented by intangible considerations, such as good will.

GOOD WILL.

The Bureau has not attempted to value any good will which the constituent concerns of the consolidation may have brought into the merger. In the original contracts on which the combination was based it was agreed that good will should be valued at the sum of the profits of the two preceding years plus an additional 10 per cent. By this method of valuing good will, which was more or less commonly used among manufacturers, the total value of the good will was placed at about \$20,800,000. If good will be allowed for the Milwaukee company on the same basis, the total good will of the combination would be about \$21,300,000.

Without indorsing this valuation, the Bureau is nevertheless of the opinion that there was a substantial good-will value brought into the merger. The McCormick, Deering, and Milwaukee companies, as already shown, made a liberal rate of profit while operating independently. This fact, together with the fact that their business had been long established, and that their machines were always sold under brand name, indicates that these concerns must have had a large good will. Against this there should be set the fact that the harvesting-machine business had apparently been somewhat overdone prior to the merger, and that there was some danger of a loss of good will as the very result of the formation of a combination or trust like the International Harvester Co.

The company claims, however, that its accounts contain no allowance for good will.

WORKING CAPITAL.

The stock issued for working capital, so far as the vendor companies are concerned, was paid in chiefly through the collection of bills receivable of the principal constituent companies. About \$10,000,000 of this cash stock was subscribed for at par by the bankers. The Bureau made an extended investigation of the accounts relating to this provision of working capital, and so far as these may be relied upon they indicate that the full amount of \$60,000,000 was actually paid in in cash. Representatives of the International Harvester Co., moreover, repeatedly declared that there was no deduction or allowance from this cash payment, but that the full amount was actually paid in as represented.

SUBSEQUENT ACQUISITIONS AND EXTENSIONS.

Immediately after its organization and almost continuously thereafter the International Harvester Co. pursued the policy of expanding its control over the farm-machinery business, not only in harvesting machines but also in various other branches. This process may be divided into three parts: (1) Acquisition of competitors in the harvesting-machine business; (2) acquisition of concerns making other lines of farm machinery; and (3) construction of new plants in the United States and in various foreign countries for the manufacture of harvesting machines and other farm machinery.

Shortly after its organization, namely, in January, 1903, it acquired secret control of D. M. Osborne & Co., of Auburn, N. Y., the most important manufacturer of harvesting machines not originally taken into the combination. This secret control was maintained for nearly two years. During this period the Osborne company was operated and advertised as an independent concern, and these representations were supported by its manager in sworn statements that it was an independent company. The International Harvester Co. claims that this was done to enable the original owners to collect certain obligations due them and that it was done at their request. While the Osborne company had a valuable line of tillage implements, its chief importance lay in the production of harvesting machines, in which it had an extensive foreign trade. In selling this concern the two largest active stockholders of the Osborne company (T. M. Osborne and Edwin D. Metcalf) covenanted with the International Harvester Co. that they would refrain from engaging independently in the same business for a period of ten years.

In a similar secret manner the International Harvester Co., in 1903 and 1904, acquired control of several other concerns which competed in the manufacture of harvesting machines and twine, namely, the Minnie Harvester Co., of St. Paul, Minn. (harvesting machines); the Aultman-Miller Co., of Akron, Ohio (harvesting machines and twine); and the Keystone Co., of Sterling, Ill. (harvesting machines and hay tools), and operated them without disclosing such control for various periods. In the case of the Minnie Harvester Co. it is claimed that this method was used merely to facilitate the liquidation of the company.

Negotiations were also had with a number of other competing makers of harvesting machines with a view to acquiring their properties or business, in whole or in part. Among these were the Walter A. Wood Mowing & Reaping Machine Co., of Hoosick Falls, N. Y.; the Acme Harvester Co., of Peoria, Ill.; and Massey-Harris Co. (Ltd.), of Toronto, Canada. These negotiations, however, were

not consummated. Massey-Harris Co. was one of the companies apparently under consideration as a desirable acquisition at the time the merger was being arranged, and when negotiations for its purchase finally fell through the International Harvester Co. proceeded to enlarge the factory already begun in Canada.

Several other concerns were apparently offered to the International Harvester Co., or proposals made with reference to their acquisition by that company, including Adriance, Platt & Co., of Poughkeepsie, N. Y.; and the Johnston Harvester Co., of Batavia, N. Y. These negotiations occurred during the period 1903-1905, but the offers or proposals were ultimately declined by the International Harvester Co., for reasons which do not appear.

EXTENSIONS INTO NEW LINES.

Aside from these acquisitions of competing concerns, the International Harvester Co. has greatly expanded its business by branching out into new lines of manufacture or sale. Among the most important lines which the company entered in this way were manure spreaders, wagons, plows, and seeders. Here again expansion was accomplished in part by the acquisition of concerns already organized. In 1906 two plants for the manufacture of manure spreaders, operated by the J. S. Kemp Manufacturing Co., were acquired, one at Newark Valley, N. Y., and the other at Waterloo, Iowa, the latter being leased. In 1904 the company acquired the Weber Wagon Co., and in the next year, moreover, entered into a selling arrangement with the Bettendorf Axle Co., of Davenport, Iowa, for the sale of all its output of steel wagons. Still again, about 1909, the company entered into a contract for the sale of the plows of the Parlin & Orendorff Co., of Canton, Ill., in Canadian markets only, and somewhat later, it made a similar contract with the Oliver Chilled Plow Co., of South Bend, Ind., for the sale of the latter's plows in Canada. It also acquired, in 1910, an interest in this company's new Canadian plow works. Very recently—namely, in 1912—the International Harvester Co. made an arrangement for the distribution and sale of the entire output of the Richmond, Ind., plant of the American Seeding Machine Co. At a much earlier date the International Harvester Co. had considered the advisability of obtaining a large stock interest in the latter company, but finally decided not to do this because it deemed the price excessive.

By thus extending its business into a number of new lines the International Harvester Co. not only increased the extent of its business, but where it was thus provided with satisfactory goods, it was able to accomplish their sale more successfully than some of the former owners, partly on account of its larger financial resources and elaborate selling organization, and also in part on account of

the pressure it was able to exert to induce dealers to handle these new lines. To a considerable extent such dealers were not allowed to handle its harvesting machines (in which it had obtained, as already shown, a substantially monopolistic position by means of combination), unless they would take these new lines also. It is apparent, therefore, that not only did the company's strong position in the harvesting-machine business facilitate its entrance into new lines, but also that these new lines in turn afforded a further means of maintaining its position in the harvesting-machine business itself.

CONSTRUCTION OF NEW PLANTS.

The International Harvester Co. extended its business in the manufacture of harvesting machines, and also in the production of new lines by building new plants, both in the United States and in foreign countries. Some of the old harvesting-machine plants were remodeled and used for making new lines of farm machinery. The most important new plant built in the United States was a large tractor plant at Chicago. The company, furthermore, greatly enlarged its plants for the manufacture of iron and steel.

The most important new construction of the company was in foreign countries, where large factories have been built for the manufacture of harvesting machines and other farm machinery, namely, in Canada, Sweden, France, Germany, and Russia.

ORGANIZATION OF THE INTERNATIONAL HARVESTER CO. OF AMERICA.

One important feature of the policy of the combination was the use of the Milwaukee Harvester Co. as a selling agency for the International Harvester Co. of New Jersey. For this purpose the name of the Milwaukee company was changed in September, 1902, to International Harvester Co. of America; the capital stock, fixed at \$1,000,000, is all held by the New Jersey company. The officers and directors of the America company were until 1910 all officers or directors of the International Harvester Co. of New Jersey. Apparently, a separate organization was adopted in order to avoid heavy taxation and the delay and difficulty of procuring new licenses to do business required in various States. Such licenses were often prohibited in case the foreign corporation applying was a trust or combination in restraint of trade.

REARRANGEMENT OF CAPITALIZATION.

In 1907 the International Harvester Co. divided its capital stock of \$120,000,000 into \$60,000,000 of preferred and \$60,000,000 of common stock. Furthermore, in 1910 a stock dividend of \$20,000,000 of common stock was declared from surplus, making the capital stock of the company \$140,000,000, consisting of \$60,000,000 preferred and \$80,000,000 common. In this connection it should be noted that the voting trust was finally dissolved in August, 1912, and the

stock distributed among the holders of the stock trust certificates. The great bulk of the stock of the company has throughout been closely held by a comparatively few interests, who have also been active in the management of the concern. It will be recalled that the McCormick interests had approximately 43 per cent of the stock at organization and the Deerings about 34 per cent.

On January 29, 1913, the directors of the International Harvester Co. announced that they had transferred to a new concern, the International Harvester Corporation, all of the foreign plants and all of the foreign business, also certain domestic plants engaged in the manufacture of the so-called new lines, together with certain assets pertaining thereto. This company is capitalized at \$70,000,000, consisting of \$30,000,000 of 7 per cent preferred stock and \$40,000,000 of common stock. The present International Harvester Co., the name of which it is proposed shall be changed to International Harvester Company of New Jersey, will retain the remaining assets, and its capital stock will be reduced to \$70,000,000, likewise consisting of \$30,000,000 of 7 per cent preferred and \$40,000,000 of common. For the \$70,000,000 stock of the present company canceled, the stockholders will be entitled to receive cash or a pro rata distribution of the stock of the new International Harvester Corporation. This action by the company is admittedly taken in view of the pending dissolution suit of the United States Government against the company. This rearrangement of capitalization was approved by the stockholders on February 10, 1913. If intended as part of a plan of disintegration the Bureau regards this method of division as very unsatisfactory.

PRESENT POSITION OF THE INTERNATIONAL HARVESTER CO.

The original monopolistic position of the International Harvester Co. in harvesting-machine lines had been substantially maintained up to the close of 1911, as the following table shows:

PROPORTION OF THE HARVESTING-MACHINE BUSINESS OF THE UNITED STATES CONTROLLED BY THE INTERNATIONAL HARVESTER CO. IN 1911.¹

Machines.	Manu- factured in United States.	Sold in United States.
	<i>Per cent.</i>	<i>Per cent.</i>
Grain binders.....	87.0	87.2
Mowers.....	76.6	74.6
Rakes.....	72.0	68.0

¹ Percentages based on practically complete returns for binders and mowers, but partly on estimates for rakes for which the returns covered about 93 per cent of the total business.

For the new lines of farm machinery it is not possible in most cases to show the precise position of the International Harvester Co., but

in several of them it has acquired a very considerable proportion of the trade. For spreaders the Bureau has obtained statistics covering a large majority of the independent production and sale in the United States, and has made estimates for the remainder which it is satisfied are approximately correct. A comparison of these figures with those of the International Harvester Co. shows that the company has about 55 per cent of the 1911 production in the United States and about 50 per cent of the sales. A comparison for disk harrows on a similar basis, for which the Bureau also had returns for a substantial majority of the total independent business, indicates that the Harvester Co.'s proportion of the number produced was at least 43 per cent, and its proportion of the number sold at least 37 per cent.

For certain other lines also the International Harvester Co. has acquired a large proportion of the business, but satisfactory data are not available to show its percentage. In the case of wagons, the International Harvester Co. had nothing at the start, but according to the best estimates that can be made by the Bureau, had in 1911 about 15 per cent of the number manufactured in the United States and over 13 per cent of the number sold, although the total production of farm wagons in the United States has decreased in recent years.

It is apparent, therefore, that the International Harvester Co. not only has maintained a high degree of monopoly in the harvesting-machine business proper, but has also become an important factor in several new lines.

A noteworthy recent development of the farm-machinery business has been the expansion of several old concerns, some of which had not previously engaged in the harvesting-machine business. This development has occurred particularly with respect to certain large concerns making plows and a variety of other lines, such as Deere & Co., the Emerson-Brantingham Co., and the Moline Plow Co., while certain other important concerns, such as the J. I. Case Threshing Machine Co. and M. Rumely Co., according to reports, have contemplated an expansion into the harvester business.

The expansion of these various concerns is one of the most significant features of the farm-machinery industry to-day, and one involving possibilities of great importance. It is important to note that these new developments have been made on the principle of carrying a so-called full line of farm machinery, although it should be understood that no company, not even the International Harvester Co., has a really complete line.

PROFITS OF THE INTERNATIONAL HARVESTER CO.

The chief feature of the profits of the International Harvester Co. is the increase from a low rate in the early years of the organization to a rather high rate in recent years, averaging about 12½ per cent

on the net assets, as computed by the Bureau, for the period 1909-1911; figures for the year 1912 are not available.

It should be explained that the Bureau met with exceptional difficulties in verifying and analyzing the accounts of the Harvester Co., because of the fact that the accounts were for several years kept in an extraordinarily loose manner, and that the company, according to the statements of its comptroller, had actually made no complete and authentic balance sheets prior to that for December 31, 1906. Furthermore, the opening entries in respect to certain accounts, at least, were not definitely established by the International Harvester Co. until it made up this 1906 balance sheet during the first part of 1907. At the request of the Bureau, the company prepared balance sheets for the earlier years.

In computing the net profits the Bureau made certain revisions both of the reported assets and profits, particularly with respect to the opening entries on the books and the treatment of certain reserves.

As already noted, the International Harvester Co. at an early date in its operations readjusted the opening entries of inventories, reducing them from about \$25,550,000, the figure at which they were appraised, to approximately \$18,155,000, on the ground that the appraisal valuations were altogether too high for trading purposes. The Bureau, it will be recalled, does not accept this treatment, maintaining that the same valuations should be used both for figuring the investment and for computing profits. The Bureau established these inventories, after an arbitrary allowance of \$1,500,000 for depreciation, which in its opinion is liberal, at about \$21,230,000. The Bureau also treated differently certain expenses, amounting to \$1,780,000, in the fall of 1902, charging these against the profits. The effect of these changes is chiefly shown in the year 1903 (this really covering a period of 15 months), for which the Bureau's computation shows a total profit of, roughly, \$797,000, whereas the company figures a profit of \$5,641,000.

The Bureau also made certain revisions of the reserve accounts of the company, particularly the contingent reserve to cover deferred profits on forward sales, the special maintenance reserve, and the depreciation and extinguishment reserve.

The first of these reserves amounted at the end of 1911 to \$2,500,000. The Bureau takes the ground that while this is a provision which, as a matter of prudence, the company might set up, it does not really represent a deduction from profits, but is merely surplus in another form.

In the case of the company's special maintenance reserve, which amounted at the close of 1911 to approximately \$1,340,000, the Bureau is of the opinion that rather more than \$1,000,000 really represented

profits, inasmuch as to this extent the expenditures had not yet been incurred or any liability definitely accrued.

Owing to the excessive valuations placed by the company on its ore properties, the extinguishment charged therefor was excessive, and consequently the Bureau restored a large portion thereof to earnings. In this connection, as an interesting side light on the company's ore valuations, it may be noted that in the first year of its operations the company charged an extinguishment of 10 cents per ton on ore mined from the Hawkins leasehold, and the same amount per ton on that mined from the Agnew, whereas the extinguishment subsequently charged amounted at the maximum to 52½ cents on the Hawkins and 37½ cents on the Agnew. Certain other minor depreciation charges which the Bureau regarded as unwarranted, and which had been charged against the property account, were restored to property and to earnings.

On the other hand, certain amounts charged by the company to insurance and pension funds, parts of which, in the opinion of the Bureau, might properly have been restored to earnings if readily ascertainable, were accepted, as shown by the company's books. The collection expense reserve of \$1,000,000 on receivables and contingent reserves for bad debts, amounting to over \$3,000,000, were likewise accepted by the Bureau.

RATE OF PROFITS ON INVESTMENT, AS COMPUTED BY BUREAU.

The net assets and profits of the company and the rate of profit on the net assets for 1903-1911, as thus computed by the Bureau in both cases, are shown in the following table. The rates are computed on the net assets at the beginning of each year; this is the method adopted by the company in computing the rates on capital and surplus.

RATE OF NET EARNINGS OF THE INTERNATIONAL HARVESTER CO. ON NET ASSETS, EXCLUSIVE OF GOOD WILL, AS COMPUTED BY THE BUREAU, BY YEARS, 1903-1911.

Year ending Dec. 31—	Net assets, exclusive of good will.	Net earnings.	Profit on assets at beginning of year.	Year ending Dec. 31—	Net assets, exclusive of good will.	Net earnings ¹	Profit on assets at beginning of year.
			<i>Per cent.</i>				<i>Per cent.</i>
1902 ¹	\$109,117,356.08	.....	.....	1908....	\$122,522,298.85	\$10,179,726.02	8.73
1903.....	106,314,179.00	\$796,822.92	² 0.73	1909....	134,781,142.61	16,458,843.76	13.43
1904.....	107,196,624.97	5,682,445.97	5.34	1910....	144,589,739.95	17,208,597.34	12.77
1905.....	109,907,909.12	7,511,284.15	7.01	1911....	.....	16,638,703.28	11.51
1906.....	112,514,855.99	7,406,946.87	6.74	Total.....	.....	90,111,087.15	8.47
1907.....	116,542,572.83	8,227,716.84	7.31				

¹ Oct. 1.

² This covers 15 months, but no change has been made for this period nor for the average of all the years on that account. This is in harmony with the company's method of treatment. For an explanation of the exceptionally low earnings of 1903, see text.

From the foregoing computation of the Bureau it appears that the average net earnings on the net investment of the company for the nine years and three months ended December 31, 1911, were 8.5 per cent. The rate of earnings for 1903 (really 15 months) was less than 1 per cent, and only in this year does the Bureau's percentage differ very markedly from that of the company; the reasons for this difference have been already fully explained, and relate chiefly to the different method of handling the inventory. Leaving this exceptional period out of consideration the rate of earnings ranged from 5.3 per cent in 1904 to 13.4 per cent in 1909. The average rate of earnings for the last three years, namely, 1909 to 1911, inclusive, was 12.5 per cent. It will be noted that the rate of profit for 1911 was about 2 per cent lower than the maximum in 1909. The company claims that on account of the reduction of prices beginning in 1912 its rate of profit will prove to have been lower in that year, but it has not as yet completed its figures for this period.

In the foregoing computations of profit the net assets of the company as revised by the Bureau have been used without any allowance for good will. In view of the difficulty of establishing a fair valuation for the good will, which might change from year to year, and furthermore in view of the fact that the company makes no entry for good will on its books, any attempt to compute a rate of earnings which would include this would be more or less problematical. Had any considerable allowance been made in the net assets for good will, the rate of profit would necessarily have been lower.

Hence, while the profits of the International Harvester Co. on the average for the whole period of its operations have not been excessive, the profits for the three-year period, 1909 to 1911, inclusive, have been distinctly high. In judging of the reasonableness of this rate of profit it is proper to consider the fact that the risk of the company's business is comparatively small, owing to its world-wide character, which to a large degree is an insurance against the effects of local disturbances of business prosperity. It is also important to bear in mind the fact that the business rests in part on a monopolistic basis, which not only tends to reduce the element of risk, but also makes it desirable from a public standpoint that the rate of profit should not be higher than a reasonable return to the capital invested.

For purposes of comparison, the net earnings as computed by the International Harvester Co. itself and the ratio of these earnings to the capital stock and surplus are shown in the table following.

RATE OF NET EARNINGS OF INTERNATIONAL HARVESTER CO. ON CAPITAL STOCK AND SURPLUS, AS SHOWN BY COMPANY'S ACCOUNTS, BY YEARS, 1903-1911.

Year.	Net earnings.	Rate of net earnings to capital stock and surplus at beginning of year.	Year.	Net earnings.	Rate of net earnings to capital stock and surplus at beginning of year.
1903.....	\$5,641,180.61	4.70	1909.....	\$14,892,740.21	10.89
1904.....	5,658,534.68	4.64	1910.....	16,084,819.19	10.91
1905.....	7,479,187.36	6.08	1911.....	15,521,397.89	9.95
1906.....	7,346,947.32	5.85			
1907.....	8,080,457.51	6.31	Total.....	89,590,946.90	7.52
1908.....	8,885,682.13	6.73			

EFFECT OF BUREAU'S REVISION OF ASSETS AND EARNINGS ON SURPLUS.

In the course of operations a large part of the net earnings of the company were left in the business and not distributed in dividends, so that by the end of 1908 all original deficiency in physical assets, compared with capital stock, according to the Bureau's computations, had been wiped out and a surplus balance established of \$2,522,-298.85. In 1910 the capital stock was increased, as already stated, to \$140,000,000, and at the end of 1911 a surplus existed, according to the Bureau's computations, of \$13,028,443.23, exclusive of good will. This surplus may be compared with the surplus shown by the balance sheet of the company for December 31, 1911, of \$23,390,-946.90, which is also exclusive of good will.

The difference is the net result of the Bureau's reduction of the assets on the one hand and its reduction of the reserves on the other. The Bureau added nothing for subsequent appreciation which would be necessary if a fair appraisal were made at the present time.

PROFITS IN PARTICULAR LINES AND IN EXPORT TRADE.

The best test of reasonable prices is found in profits, particularly if these can be shown for different branches of the business.

A noteworthy feature of the business of the company is that the rate of profit, whether on sales or on investment, for the highly monopolistic lines—grain, grass, and corn harvesting machines—is very much higher than the corresponding rates for several of the important new lines, such as wagons and spreaders, where the company encounters greater competition, and also higher than the rate on twine. Thus, the rate of return on wagons, in which the company's percentage of the business done is as yet relatively low, is admittedly much less than in the monopolistic lines; and even in manure spreaders, where the company does approximately one-half the business in the United States, the profits are comparatively low, probably due to the aggressive sales policy adopted by the company.

For example, the company's own statements show that its profits on grain machines in the United States in the years 1910 and 1911 averaged over 20 per cent on net proceeds of sales (not investment), while the profits on farm wagons and manure spreaders in the United States (again based on net proceeds of sales) were slightly less than 10 per cent. A similar disproportion, moreover, is found in the rates of profit on investment as computed by the company. For twine the rate of return on net sales in 1910 and 1911 was only a little above 7 per cent, while for 1910 alone it was less than 2 per cent (again on net sales), but this low rate was due to exceptionally large purchases of fiber by the company at high prices during 1909. It may be noted that the rate of profits on wagons alone is admittedly much lower than that on manure spreaders; the company claims, moreover, that the rate on wagons is lower than on any other line manufactured by it.

Comparing the foreign business of the International Harvester Co. with the domestic business, there are comparatively few exceptions, apparently, to the statement that the prices to the retail dealer or to the farmer are higher abroad than in the domestic market. This is due largely to the fact that the business in foreign markets must bear a large expense for freight and generally for duty, while the selling expense likewise is often high. The only proper basis of comparison for the returns to the company is found in the net price received at the factory in the United States, due account also being taken of the extra cost of packing or other extra costs of machines made for export. The company maintains that its net returns on this basis are higher for the export than for the domestic trade, but its own accounts show that this is by no means universally the case.

PRODUCTIVE EFFICIENCY AND FINANCIAL RESOURCES.

COST OF PRODUCTION.—The International Harvester Co., generally speaking, has an advantage over independent manufacturers with respect to the cost of production of its machines. This is especially marked in the case of grain binders, the most important of the harvesting machines. Thus, the average factory cost of binders for the International Harvester Co. at its domestic plants for the two years, 1910 and 1911 combined, was \$56.32, and ranged from \$54.11 to \$73.78 at the different plants. While the company produces most of the iron and steel required—on which its subsidiary steel company makes a very large profit—the cost of these materials to its implement plants is based on prevailing market prices, so that its costs in this respect are comparable with those of the independent producers. For the four independent companies that reported to the Bureau the cost of their binders, the average factory cost for the

same period as computed from the data reported by them was \$70.83. There was a wide range of cost among the four independent concerns, but only two of them showed a materially lower cost than the highest cost of the International Harvester Co. While differences in the style of construction of different makes of binders undoubtedly explain some of these differences in the cost, the chief reasons therefor were differences in economy of production, in which the International Harvester Co. has a large advantage in its great volume of output, at least at its McCormick and Deering plants. The output at these plants, however, was equally large before the merger.

These figures of factory costs do not take account of general and miscellaneous expenses, nor of a much heavier selling expense which for binders sometimes amounts to \$20 or even \$25 per machine. General and miscellaneous expenditures were relatively much heavier for the independent companies than for the International Harvester Co., chiefly on account of great differences in volume of business, though possibly due also to differences in methods of keeping cost accounts. They may properly be grouped with manufacturing costs for the purpose of this comparison. If these expenditures are prorated over the cost of production, both for the International Harvester Co. and the independents, the average cost of binders for the International Harvester Co. becomes \$58.57, and for the four independents \$76.18.

A proper understanding of these relations of cost of production to the competitive position of the independent binder manufacturers requires consideration also of the question of selling expense. The selling expense per binder for the International Harvester Co. is considerably higher than the average selling expense of the independents, and this fact partly compensates the latter for their higher average costs of production. Nevertheless the margin of profit between prices and cost of production and selling expense combined is markedly lower for the independents than for the International Harvester Co. Apparently the relatively high selling expense of the International Harvester Co. is due to the policy of maintaining a very elaborate selling organization, which gives it a strong hold on the trade and helps to secure to it a large volume of business. It appears to be the company's policy thus to maintain an expensive selling organization to push the sale of its goods rather than reduce prices on some of its most important lines, particularly harvesting machines.

Similarly in the case of mowers and rakes, for which the Bureau had sufficient data for comparing the costs of the International Harvester Co. with those of independents, it was found that the average cost of manufacture at the plants of the International Harvester Co.

for the years 1910 and 1911 combined was lower than the average cost of the independents reporting. Prorating general and miscellaneous expense over the factory cost of these machines the advantage of the International Harvester Co. in this respect over the independents was even greater.

Again for some of the newer lines, data secured by the Bureau indicated some advantage for the International Harvester Co. in cost of production, but the data were not sufficient to be conclusive.

The foregoing comparisons of production costs indicate one of the most important advantages enjoyed by the International Harvester Co. The striking advantage it has with respect to cost of production of binders, taken in connection with the great importance of this machine in the farm-implement trade, is one of its chief elements of power.

FINANCIAL RESOURCES.—Another chief element of strength of the International Harvester Co. is the possession through combination of large financial resources. This is reflected principally in three ways: First, the ability to reap the advantages of large-scale production already described; second, the ability to carry a full line and maintain an elaborate selling organization; third, the ability to grant long terms of credit.

Most of the concerns which compete with the International Harvester Co. are not full-line concerns. Those which make harvesting machines in most cases do not produce other lines to an important extent. Again, most of those which make other kinds of farm machines have only a few lines, and sometimes only one. On the other hand, there are three large full-line companies, the operations of which, in this connection, are compared with the International Harvester Co., namely, Deere & Co., Emerson-Brantingham Co., and Moline Plow Co. Of these three full-line houses, Deere & Co. was distinctly the most important, from the point of view of financial resources, in 1910 and 1911, but even this company was not in the same class with the International Harvester Co. in this respect. Those competitors of the International Harvester Co. which did not carry a full line were, in most instances, small.

The advantage of relatively low costs of manufacture has already been shown above, and undoubtedly rests chiefly in large-scale production.

Except possibly for the three full-line companies mentioned above, the International Harvester Co. enjoyed a great advantage with respect to the distribution of similar kinds of implements, in so far as the methods of distribution employed were similar. There are generally great differences in the selling expense of different kinds of machines, owing to different methods and customs regarding sale

and distribution, these being partly due to the technical requirements of the business. Custom has generally established a more elaborate system of distribution for harvesting machines than for tillage implements, while the character of the goods themselves and the necessity for "setting up," etc., in the case of harvesting machines involves a greater expense than for most other lines. While nearly all companies engaged in the distribution of certain harvesting machines utilize an elaborate organization for distribution, full-line companies with great financial resources are, to a considerable extent, able to apply the same system to other lines, such as manure spreaders, engines, and wagons. While this undoubtedly increases their actual outlay for selling expense per unit in these lines, in so far as they eliminate the jobber, they obtain thereby a higher price, generally, for the goods. Moreover, they are thereby enabled to obtain a much stronger hold on the trade; for example, by selling directly to the local dealer instead of to the jobber, and, furthermore, by getting in direct contact with the farmer, through the employment of canvassers and other salesmen.

The granting of long terms of credit was originally developed in the harvesting-machine industry on account of the general inability of farmers to purchase expensive machines, like binders, for cash, but it has been continued, to a certain extent at least, as a special means of getting trade by those concerns which had ample financial resources. Moreover, it has been extended by them to other lines of farm implements of a less expensive character, in which this custom was not developed until a comparatively recent time.

The International Harvester Co., which, through combination, acquired extraordinary financial resources, not only perpetuated the system of selling harvesting machines on long terms of credit, but, more conspicuously than any other concern, has extended this system to its new lines. This system of selling these new lines on long terms of credit has made it difficult for the manufacturers of such lines, except possibly a few full-line concerns, to meet its competition, and is the principal complaint which they make regarding the present conditions of business. Representatives of the International Harvester Co. claim that its leading competitors grant equally long credits and declare that its policy is to develop as far and as rapidly as possible the system of cash sales, that is, cash payment in the same season as the goods are purchased, and that discounts for cash are allowed for this reason. While in some localities there has been a great increase in the proportion of cash sales, nevertheless, taking the business of the International Harvester Co. as a whole, it appears that the proportion of sales on long credit (i. e., one or more years) to total sales was higher in 1911 than at the beginning of business.

This increase in the proportion of credit sales is partly due, at least, to the application of long credits to the new lines of goods for which they were formerly uncommon.

Thus, comparing 1904 (no data for 1903 being available) with 1911, the proportion of credit sales to total sales in the United States was 31.1 per cent in 1904, while in 1911 it had increased to 35.8 per cent. Inasmuch as there was a decrease in the harvesting-machine business as compared with the total business, this fact indicates the extensive use of credit in new lines.

Furthermore, while notes maturing in one year showed a decrease as between 1904 and 1911, namely, from 34.7 per cent to 28.9 per cent, as compared with the total of notes received in those years, the two-year notes showed a large increase, namely, from 48.0 per cent to 64.2 per cent. On the other hand, the notes maturing in three and four years showed marked decreases, namely, from 14.4 per cent to 6.5 per cent and from 2.9 per cent to 0.4 per cent, respectively, from 1904 to 1911. It is evident, however, that these long-term notes covered but a small proportion of the total business done on credit.

The International Harvester Co. is enabled to pursue this policy, as already stated, because of the large resources it acquired through combination, and furthermore, it has been aided therein by financial support of an exceptional character through its connection with J. P. Morgan & Co., its fiscal agents. The company has also secured large loans from John D. Rockefeller, father-in-law of one of the McCormicks.

Thus far it appears that instead of sharing the advantages of its superior efficiency and exceptional resources with the consumer, the company has generally used these advantages in connection with its monopolistic position in harvesting machines to extend its operations in new lines.

COMPETITIVE METHODS OF INTERNATIONAL HARVESTER CO.

In discussing the competitive methods of the company it should be recognized that some practices which might be regarded with indifference if there were a number of competitors of substantially equal size and power may become objectionable when one competitor far outranks not only its nearest rival, but practically all rivals combined, as is true of the International Harvester Co. so far as several of its most important lines are concerned.

It should also be observed that during the first two years of its operations the company was badly organized, and that instead of a harmonious policy, "divisions" corresponding to the five old concerns acquired were maintained, and that under this arrangement various objectionable practices prevailed, some of which appear to have been subsequently abandoned. At the same time, there has con-

tinued to be a rather general complaint among dealers, and competing manufacturers as well, against the methods employed by the company.

In the course of the Bureau's investigation, its agents visited over 800 retail dealers at some 600 towns scattered through 27 States. This probably represented fully 75 per cent of the total number of active dealers at these particular points. Effort was made to secure as representative statements as possible. The results were approximately as follows: Twenty-five per cent favorable; 20 per cent non-committal; 50 per cent specifically unfavorable; 5 per cent unfavorable without specific complaint.

Naturally it is to be expected that a considerable portion of those doing business with a large corporation will be favorably disposed toward it. Indeed, this should be the normal condition. The fact, therefore, that one-half of the total number of dealers interviewed made some specific statement involving adverse criticism of the methods of the company shows beyond doubt that there must be some substantial ground for criticism; a number of these complaints, however, in the opinion of the Bureau, were unimportant.

In addition to dealers, the Bureau's representatives saw the competing manufacturers and their general agents and also various implement jobbers at the chief jobbing centers.

Among such objectionable competitive methods here discussed are:

(1) Maintenance of bogus independent companies in the early years of the company's operation.

(2) Attempts to force dealers carrying its harvesting machines into carrying additional lines or certain International lines exclusively. At an earlier date the contracts of the Harvester company contained an exclusive clause for harvesting machines.

(3) Efforts to secure an undue proportion of desirable dealers in a given town by giving only one of its several brands of harvesting machines to a dealer, thus tending to restrict the outlet for competitive goods.

(4) Use of "suggested price" lists, tending to influence the final retail price; earlier the contracts themselves provided for fixing of retail prices by the company.

(5) Occasional discrimination in prices and terms.

(6) Misrepresentations by salesmen regarding competitors.

PRETENDED COMPETITION IN EARLY YEARS.

So far as the maintenance of bogus independent companies is concerned, this has already been referred to in discussing the acquisitions of the Osborne, Minnie, Aultman-Miller and Keystone concerns. The impropriety of continuing the operation of these companies under the old names, without disclosing the real ownership, after they had

been acquired by the International Harvester Co., is obvious. Some of these concerns were openly advertised as independent. It should be repeated that in some cases it is alleged that the ownership was concealed merely to facilitate the liquidation of the old concern, but the Bureau does not regard this as a justification of the practice.

COERCION OF DEALERS TO HANDLE INTERNATIONAL HARVESTER CO. GOODS.

EXCLUSIVE CONTRACT.—In 1905 and previous years the Harvester company's usual commission-agency contract contained substantially the following clause:

Said agent especially agrees not to accept the agency for or to be interested in the sale of any grain binder, header, corn binder, husker and shredder, reaper, mower, stacker, sweep rake, hay-rake or hay tedder, other than those manufactured by the International Harvester Company, either directly or indirectly, nor to permit anyone acting for him as employee, agent, or partner, so to do while acting as agent for the said company under this contract, and said agent agrees to pay said company on demand as liquidated damages, twenty-five dollars for each grain binder, header, or corn binder; fifty dollars for each husker and shredder; ten dollars for each mower, reaper or stacker; five dollars for each sweep rake, hayrake, or hay tedder sold in violation of this paragraph of this contract.

It is obvious that the use of this clause in the contract, even if not enforced, would have a powerful effect upon most dealers.

It is indicative of the real intent of this clause that it was eliminated from the contract after 1905, when antitrust proceedings against the company were threatened in several States. In fact, in Texas the use of this clause was discontinued as early as October, 1902. On the other hand, it should be noted that this clause was customary among harvesting-machine companies prior to the merger and has been used by some other companies in the implement trade even since it was abandoned by the International Harvester Co. It is especially objectionable, however, when used by a concern which has a monopolistic position.

EXCLUSIVE HANDLING.—After the elimination of the exclusive clause from dealers' contracts, other means were not infrequently employed to secure the same end. In a considerable number of instances reported to the Bureau, salesmen of the International Harvester Co. endeavored to prevent the handling of a competitor's line by threats to discontinue the dealer's agency for the International Harvester Co.'s machines, and in some instances canceled or discontinued the dealer's agency when he insisted upon handling an independent line. The company asserts, however, that such practices are contrary to its policy.

"FULL-LINE" FORCING.—This complaint was a rather general one among the dealers interviewed. Obviously it is difficult to say just where this practice of trying to induce dealers to take additional kinds of products ceases to be legitimate competition and becomes objectionable. The International Harvester Co., like any other concern, desires to push the sale of its goods, and naturally is disposed to take advantage of the fact that it has certain desirable machines, in order to force the sale of its newer lines. Aside from any question as to motive, it is apparent that any concern having a monopoly of such an article as harvesting machinery has an enormous advantage in forcing its entrance into new fields, and that this advantage is very susceptible of abuse. There were numerous complaints that the salesmen of the company attempted to force dealers to take on lines in addition to those already handled, frequently under penalty of loss of their agencies for the company's harvesting machines. Frequently, however, it appeared that these threats were not carried out.

EFFORT TO SECURE UNDUE PROPORTION OF DEALERS.

As a rule there are not more than three dealers in farm machinery in an ordinary town in the grain States. It is the policy of the International Harvester Co., in general, to allow a given dealer to handle only one of its several brands of harvesting machines, thus absorbing the services of a large number of these dealers; of course, not all of the company's brands are handled in every town. Complaint is made that this tends to give it such an undue proportion of dealers as to restrict the outlet for competitors' goods. The company, however, expressly denies that in adopting this policy of distributing its brands it is actuated by any desire to handicap its competitors in this way. The company's position on this point is illustrated by the following excerpt from testimony of the assistant general manager to the Bureau:

Q. I understand then that your position is that the company does not place its brands in this way for the purpose of handicapping its competitors; and you also contend that, regardless of intent, the practical effect is not to handicap your competitors?—

A. It does not. Its sole purpose is to get more active representation of your goods, which you can not do if you allow them to get into the hands of one man in a town. He will not give your customers the same consideration, the same service, as he will if he is handling a less number. Not only do we not try to eliminate them in that way, but it is a matter of real benefit to us in new sections when a competitor will get a real, live, active man in the trade. We sell more goods than we could do if we gave all our lines to one man and there was not any competitor there.

However, it seems significant that the record in the Government suit shows that in 1903 a report of the sales committee of the Inter-

national Harvester Co. of America, which was approved by the executive committee, contained the following statement:

We believe that so long as there is competition it is desirable for the International Harvester Co. to maintain five selling organizations for the purpose of getting the largest amount of effort from the greatest number of local agents without expense to the company, and for the purpose of utilizing in its own business as much as possible of the available local agency material rather than permit any of it to become available for competitors.

Still again, in 1902, when the exclusive contract was discontinued in Texas, the executive committee of the International Harvester Co. of America directed each division of the company "to discourage any agent in Texas from handling more than one brand of machine."

These official statements seem to show conclusively that the distribution of brands among various dealers in the manner indicated was at one time the result of a settled policy of the company to secure as many of these dealers as it could for its own business, and with a view to embarrassing competitors. In view of these official statements, the fact that the company still distributes its brands in this way seems significant. Practically, the supply of dealers even in the smaller towns usually has been sufficient to prevent anything like an effective monopoly of these channels of distribution, although it does appear that the company's practice in this respect has to some extent handicapped its competitors.

ISSUE OF "SUGGESTED-PRICE" LISTS.

Formerly the commission agency contracts of the International Harvester Co. expressly provided for the maintenance of retail prices fixed by the company. In recent years, however, this clause has been omitted from these contracts, and the company now expressly disclaims any attempt to control the retail price charged by the dealer. The position of the International Harvester Co. is that dealers in farm machinery are not strictly its agents, although generally so called, but that they are free to do as they like in the matter of prices, subject to the right of the company to cease dealing with them if they adopt methods which tend to injure its business or demoralize the trade.

The Bureau found, however, that following the elimination from the company's contracts of the clause relating to retail prices there has been a rather general issuance of price lists in different parts of the country, usually by general agents of the company, naming so-called "suggested prices" to be paid by the farmer. These price lists are sometimes gotten out in rather elaborate form, and over the name of the International Harvester Co. of America, and they have had a rather wide circulation among dealers. Representatives of the Bureau found that such price lists had been issued by several general agencies of the company in recent years.

The assistant general manager of the company explained these price lists on the ground that there was a constant demand on the part of the company's salesmen for suggested prices, largely as a matter of information for the benefit of final purchasers who frequently made requests for quotations. In this connection he said:

There is a constant demand on the part of our salesmen for these suggested prices. * * * Some of our men have been stupid enough—indiscreet enough—to comply with this request to the extent of getting out a "suggested list." I may say, however, in justice to them that there was a period along about 1904-5 when that was recognized by our counsel at the time as not being objectionable. Later instructions were issued not to do it, as it led to a misunderstanding as to what our motives were.

It is obvious that the company could immediately stop the issuance of such lists if it genuinely desired to do so.

The company's position is that these lists have no effect and are not intended to have any effect in the direction of maintaining uniform retail prices. The Bureau, however, is of the opinion that the distribution of these lists tends to the maintenance of more uniform retail prices by deterring dealers from making concessions.

LOCAL DISCRIMINATION IN PRICES AND TERMS.

The general policy of the International Harvester Co. is one of uniform prices to dealers. Complaints were submitted to the Bureau, however, to the effect that at times it engages in local price cutting for purposes of competition. Admissions of the company show that moderate concessions are rather frequent. The Bureau found a large number of such moderate concessions and also a limited number of deep cuts, but the company itself admitted such deep cuts in only a very few instances. The company specifically denied that its policy is to make deep cuts to injure competitors. It is obviously difficult to say just where moderate concessions in prices cease to be an ordinary incident of competition and become subject to condemnation. It should be noted that the laws of several States in which the International Harvester Co. does business specifically provide against local discrimination in prices. However, the Bureau is of the opinion that such discrimination in prices has not had a serious effect on the business of competitors.

It may be pointed out that in some of its newer lines the company has adopted a general policy of distinctly low prices. The important point in this connection is that the International Harvester Co. reaps a monopolistic profit from its harvesting machine lines, and is thereby enabled to pursue an unusually low-price policy in other lines, apparently with the object of securing control of them also.

In this connection there is much complaint that the company grants unusually long terms of credit to purchasers of some of these newer lines. One of the competitors of the company said, "The Interna-

tional Harvester Co. sells terms, not harrows." Other complaints as to the company's terms were made especially with respect to manure spreaders, wagons, and gasoline engines. The advantage of the Harvester company in this respect, because of its superior resources, is referred to elsewhere. This, however, is a matter distinct from local discrimination, although, in the opinion of the Bureau, it is more serious in its effect on competitors in the new lines, where the proportion of the company's business has been rapidly increasing.

MISREPRESENTATIONS REGARDING COMPETITORS.

Complaint was also made to the Bureau that there has been more or less general misrepresentation of competitors by the salesmen of the International Harvester Co. While some years ago there were a few such complaints involving misrepresentation of the financial standing of competitors by the company's salesmen, no recent complaints on this score were received. The International Harvester Co. stated that in the most recent case for which proof was submitted to it the salesman was dismissed. Recent complaints were chiefly to the effect that the salesmen of the International Harvester Co. frequently represent that purchasers of competing harvesting machines will be unable to secure repair parts, the implication being that the competitors may not continue in business. A representative of the International Harvester Co. admitted that this practice existed to some extent, and said that the company had "used a lot of time, energy, and money trying to eliminate it." He contended that this was an inheritance from the bitter competition which preceded the formation of the company. He insisted positively that it was contrary to the policy of the company.

In the opinion of the Bureau there is foundation for this complaint, but apparently the practice has not resulted in seriously handicapping competitors.

While notwithstanding the various objectionable practices above set forth the business of the competitors of the International Harvester Co. in harvesting machines has increased, obviously this is no defense of methods in themselves objectionable. Moreover, as already shown, the International Harvester Co. has thus far substantially maintained its monopolistic position in the harvesting-machine business, while in several of the newer lines in which it had no interest at its organization it has, in a short period of years, built up its business so rapidly that in some of these it now has a large proportion of the trade, and in one, manure spreaders, a majority of the business. It is also worth noting that the company's business in wagons has increased rapidly in the face of a reduction in the total demand.

SOURCES OF THE COMBINATION'S POWER.

Three principal factors appear, therefore, to have been chiefly responsible for the position attained by the International Harvester Co.: (1) Combination of competitors; (2) superior command of capital; (3) certain objectionable competitive methods.

The prime source of the company's power is undoubtedly to be found in the original combination of the principal competing companies in the harvesting-machine business. As already shown, the company was also able to use its position in this branch to great advantage in forcing its way into new lines.

Next to this monopolistic control of the harvesting-machine business proper is the company's exceptional command of capital.

While its financial advantage has been supplemented by the adoption of certain objectionable competitive methods, the mainspring of its power was the consolidation of the leading competitive factors in the industry.

CHAPTER I.

CONDITIONS BEFORE THE FORMATION OF THE INTERNATIONAL HARVESTER CO.

Section 1. Introductory.

This investigation was instituted in pursuance of a resolution of the Senate of the United States which directed the Department of Commerce and Labor to investigate "the character and operation and effect upon interstate commerce of the combination or trust organization known as the International Harvester Co. and allied concerns engaged in the production, handling, and sale of farm machinery; the investigation to include an inquiry as to whether the prices and output of such machinery appear to be or to have been controlled and regulated by direction of any particular individual or combination of individuals, by a corporation or otherwise; whether there exists at present a healthy competition between local dealers in farm machinery; and whether the quality of the same is on the average as good as in former years."

This investigation covers, therefore, on the one hand, the affairs and conduct of the International Harvester Co., and, on the other hand, the conditions of the implement trade, particularly in harvesting machinery and other lines of farm machinery made by the International Harvester Co. The present report is chiefly devoted to the International Harvester Co.

Section 2. Importance of large-scale operations in the implement industry.

All the tools of husbandry may be included under the general term agricultural implements. In this broad sense, wagons and vehicles used in farming are included, as well as implements, as that term is ordinarily used in the trade.

The extent of the saving of manual labor and money resulting from the application of implements and machinery to agricultural production varies greatly, and, owing to these great variations of conditions, can not be measured accurately for the agricultural industry as a whole. Attempts have been made to indicate statistically the amount of this saving, but it is impossible to state any average results.

In order that such machines should be produced cheaply, it is essential that there should be an extensive division of labor in the manufacturing industry, and that the several kinds of machines should be produced in very large quantities. This makes it possible to produce machines of interchangeable parts at a comparatively low cost. The process of manufacture, which requires the use of a considerable variety of raw materials, is elaborate and demands large plants with expensive equipment.

Another fact that tends to promote concentration in the implement industry is that the products are largely marketed or distributed by the producers themselves, and the cost of marketing naturally tends to be lower for concerns which produce and sell a considerable variety of implements, i. e., those which carry a "full line."

Further, the demand for agricultural implements varies considerably with the size of crops from year to year. In order to meet a large demand promptly, the producers must manufacture great quantities to be carried in stock, although the demand may not prove sufficient to take all of them in the following season. This involves carrying large inventories, which require a relatively large investment of capital in that form.

Finally, the methods of selling on credit which have been established in some branches of the trade, particularly harvesting machines, and which have in some respects proved a great advantage to the farmer, demand large financial resources on the part of the manufacturer.

Section 3. Growth of the industry according to census statistics.

The growth of the agricultural-implement industry in the United States has been very rapid, corresponding, on the one hand, to the constantly increasing settlement of the agricultural sections and, on the other hand, to the progress of invention and the increased use of labor-saving implements and machines.

This growth may be shown for recent years from the census statistics; for this branch of the industry these do not extend back of 1869. The census data make a division of the industry in such a manner as to exclude certain kinds of implements and machines which are properly included within the scope of this report, as, for example, farm wagons, farm engines, cream separators, etc. The census statistics, however, include most of the important branches. The data which are of especial interest are (1) the quantities produced, and (2) investment of capital and value of products. In considering the census data it should be remembered that they generally refer to the last business year preceding the date of the census.

The production of the chief kinds of agricultural implements and machines, as reported by the census, is shown in the following table:

TABLE 1.—NUMBER OF SPECIFIED KINDS OF AGRICULTURAL IMPLEMENTS MANUFACTURED IN THE UNITED STATES, ACCORDING TO THE CENSUS REPORTS 1869-1909.

[Owing to variations in classification, etc., and to the fact that census years were sometimes exceptional years—which was especially true of 1899, 1904, and 1909 for certain products—the comparison here given should be used only to obtain a view of the general trend of the 40-year period.]

Kind.	1869	1879	1889	1899	1904	1909
Grain binders, harvesters, and headers....	3,566	¹ 25,737	125,942	233,542	108,810	129,274
Corn harvesters.....				20,707	6,924	19,693
Hay carriers.....			24,351	54,303	85,121	45,064
Horse hayforks.....			1,823	51,770	62,801	43,675
Hay loaders.....		8,957	3,019	7,273	27,174	34,705
Horse hayrakes.....	80,619	95,625	114,790	216,345	236,297	266,260
Haystackers.....			6,184	12,069	8,670	17,212
Hay tedders.....		2,334	12,176	14,510	35,745	34,396
Mowers ²	99,131	127,010	186,574	398,616	273,385	359,264
Reapers.....	60,388	35,327	8,834	35,945	60,996	58,294
Corn huskers ³		44,370		10,726	1,327	1,612
Power corn shellers.....			5,726	8,185	6,082	9,049
Horse thrashers.....			2,769	1,314	2,237	822
Steam thrashers.....	⁴ 22,931	⁴ 10,424	2,661	3,651	7,950	23,586
Thrashers and separators combined.....			5,937	6,394		
Horse corn planters.....			54,639	⁵ 76,335	90,929	122,780
Cotton planters.....	2,000	19,288	56,740	45,575	127,052	79,271
Potato planters.....				25,338	35,756	23,092
Corn drills.....				21,940	28,228	⁶ 41,429
Grain drills.....	32,033	43,222	44,830	91,635	76,929	68,611
Grain sowers.....		15,563	16,728	36,862	33,546	⁷ 61,970
Manure spreaders.....		⁸ 8,155		5,263	22,236	(⁹)
Seed sowers.....	6,900	20,289	67,716	83,283	59,910	7,847
Small cultivators.....			239,008	¹⁰ 207,171	239,173	469,696
Wheeled cultivators.....	¹¹ 88,740	¹¹ 318,057	206,482	295,799	313,088	435,429
Disk harrows.....			53,980	97,261	104,323	193,000
Other harrows.....	9,150		214,985	380,259	348,850	507,820
Disk plows.....				17,345	39,146	22,132
Shovel plows.....				102,320	121,899	254,737
Steam plows.....				207	1,699	2,355
Sulky or wheel plows.....			67,286	136,105	138,899	134,936
Walking plows.....	864,947	1,326,123	1,182,059	819,022	956,898	1,110,006

¹ Includes all harvesters.

² Includes combined reapers and mowers for which numbers were not given in 1909. For preceding census periods production of combined mowers and reapers was as follows: 1899, 59,645; 1879, 54,920; 1889, 15,681; 1899, 1,055; 1904, 5,693.

³ Includes combined corn huskers and shredders; apparently a change made in classification.

⁴ Not reported separately.

⁵ Includes bean planters.

⁶ Includes 21,292 disk drills.

⁷ Broadcast and combination seeders.

⁸ Not reported.

⁹ Classified as "fertilizer distributors."

¹⁰ Includes 189 bean cultivators.

¹¹ Including bean and beet cultivators.

Owing to variations in classification, etc., and to the fact that census years were sometimes exceptional years, the comparison here given should be used only to obtain a view of the general trend of the 40-year period.

The foregoing table does not include all the implements and machines reported by the census, the hand tools, especially, not being shown here. For hand tools, such as hoes, rakes, etc., some were not reported for the census of 1910, while others, such as shovels, have not been reported at all. Such hand implements, moreover, form a distinct branch of industry with which this report is not concerned. Some hand tools—for example, grain cradles, scythes, rakes, etc.—have comparatively little importance at the present time, having decreased in output positively as well as relatively; for others, for example, hay forks, hoes, etc., there has been, however, a positive increase during the period under consideration, so far as the figures are shown. In general, of course, there has been a large substitution of machines for hand tools.

For some kinds of elaborate or complicated machines there has been an almost steadily increasing output, while for others the output has been decreasing. In some cases, for example, plows and thrashers, the increase in the more elaborate types of machine has probably offset the decrease in the less elaborate types. For grain-harvesting machines it should be noted that the fact that 1899 was a year of abnormally large production, and the year 1909 a year of unusually small production, makes the comparison unsatisfactory for determining the general trend of the business. It is a fact, however, that during this period there was a rather considerable decrease in the production of binders (see p. 180). This decrease in domestic demand appears to be partly due to the fact that many of the farms were already largely equipped with such machinery.

It should be borne in mind, moreover, that the foregoing table of production includes not only the quantity used in the United States but the quantity made for export. There is a large and increasing export trade in several of the more important kinds of agricultural implements, and particularly in grain and grass harvesting machines.

Another view of the development of the agricultural-implement industry is obtained from the census data regarding the investment and the value of the product. It should be noted that the investment is that which is reported by the companies themselves to the Census Bureau. Such figures of investment may vary considerably, of course, from the true investment in many cases, and sometimes in sufficient degree to considerably affect the total amount. This probably affects the census reports since 1890 more than those of earlier years, because since that time there has been a pronounced development of large corporations in this branch of the industry, and these

corporations have sometimes a reported capital and surplus considerably in excess of the true investment.

TABLE 2.—GROWTH OF THE MANUFACTURE OF AGRICULTURAL IMPLEMENTS ACCORDING TO THE CENSUS REPORTS, 1849-1909.

[The figures in this table should be used only for the purpose of obtaining a broad view of the trend of development.]

Year.	Number of establishments.	Capital invested.	Number of wage earners.	Total value of product.
1849.....	1,333	\$3,564,202	7,220	\$6,842,611
1859.....	2,116	13,866,389	17,093	20,831,904
1869.....	2,076	34,834,600	25,249	52,066,875
1879.....	1,943	62,109,668	39,580	68,640,486
1889.....	910	145,313,997	38,827	81,271,651
1899.....	715	157,707,951	46,582	101,207,428
1904.....	648	196,740,700	47,394	112,007,344
1909.....	640	256,281,000	50,551	146,329,268

The table shows a reported investment of only \$3,564,202 for 1849 as compared with \$256,281,000 for 1909, or about seventy-twofold increase. The value of the product at the factory increased from \$6,842,611 in 1849 to \$146,329,268 in 1909, or about twenty-onefold in the 60-year interval. It is to be expected, of course, that the value of the product would not be multiplied nearly as rapidly as the investment. The number of wage earners for the same two years increased from 7,220 to 50,551, or about sevenfold. The average value of the product per wage earner increased from \$948 in 1849 to \$2,895 in 1909, or threefold. In other words, the greatly increased use of capital increased the average output per wage earner. The general relations shown by the above figures for the agricultural-implement industry are characteristic, however, of the general development of manufactures in the United States.

Another important fact indicated by the foregoing table is the marked decrease in the number of establishments. There were 1,333 establishments in 1849, with an average output of about \$5,133, and only 640 in 1909, with an average output of \$228,639. From 1849 to 1859 there was a considerable increase in the number of establishments, but from 1859 on there was a decrease. This marked tendency toward a concentration of the industry in fewer and larger plants, resulting in a smaller number of establishments and greater average importance for each, is not peculiar to the implement industry, but is characteristic of most other branches of business in the United States. While this general tendency in all branches of industry has largely arisen from economic progress, a part of it has been due to circumstances of a different character, two of which may be especially mentioned—(1) railroad favoritism, which enabled the larger concerns

to drive out the weaker, and (2) combinations of competitors, with a view to obtaining a monopolistic influence in the market. The importance of the first tendency has been very great in the industrial history of the United States and requires no demonstration here. With respect to the second, certain instances which affect the agricultural-implement industry will be considered in some detail in this report.

Section 4. Development of invention and use of agricultural implements.

In the early part of the last century agriculture was, of course, to a very large extent dependent upon the use of hand tools. While a number of implements were in use at this time, most of them were very crude. Cast-iron plows did not come into general use until after 1820 in the prairies of the Middle West, and it was not until after 1840 that grain and grass cutting machines came into general use. It was from these machines that the harvesting-machinery industry of the present day developed.

The Civil War, while it greatly interfered with the agricultural development of the country, nevertheless, by drawing labor from the farms, tended to increase the demand for labor-saving machinery. This demand was furthermore increased by the rapid development of agriculture in the prairie regions, which were especially adapted to the use of such machinery. During this decade marked improvements were made in the manufacture of agricultural implements.

Changes in harvesting machinery were especially important, this period being marked particularly by the development of the Marsh harvester and the wire binder. The usefulness of the wire binder was limited by difficulties in thrashing and by the great cost of wire. Moreover, just as the wire binder was being perfected and coming into more general use—at the end of the seventies—an invention appeared which entirely displaced it, namely, the twine binder. Somewhat later the twine binder, in turn, was improved by changing from wood to steel construction.

In the last quarter of the nineteenth century a great variety of important machines came into more general use, such as hay loaders, hay tedders, disk harrows, wheel plows, etc., while the use of various other machines was greatly extended. In consequence, there was not only a relative but in some cases an absolute reduction in the use of hand implements, while the reaper itself gave place very largely to the more efficient binder.

Practically all the important classes of implements (except gasoline engines) now used on the farm were extensively employed at the beginning of this century, although the increase in certain lines has been particularly marked since then, as, for example, in gasoline engines, motor vehicles, manure spreaders, and cream separators.

The chief lines of harvesting machines (e. g., binders, reapers, mowers, rakes), with the exception of the corn harvester, which came out in the nineties, were well developed 15 years or more before the beginning of the twentieth century; that is, before the organization of the International Harvester Co. In each of these lines there were various types of machines on the market, and before the beginning of this century practically all the basic patents had expired, so that the field of manufacture was open to all. It is evident, therefore, that the existence of monopolistic conditions in this branch of the business can not be attributed to patent rights.

By 1850 the beginnings of factory industry were made, and the development since that time has been almost entirely along this line. Even in these early days the industry took on many of the characteristics which have been peculiar to it until within a very recent period, namely, the specialization of production along particular lines of implements or farm machinery. One of the causes for this line of development was the fact that the most important types of machines were constructed under patents, and these tended to be developed by particular individuals or companies. Where the machine was successful the production tended to be large and involved the establishment of factories of considerable size. This tendency toward specialization of production was characteristic of the business until a comparatively recent period, when a counter tendency appears toward the production of several different lines by one concern, in order to obtain the advantages arising from marketing a "full line." This tendency appeared somewhat earlier among jobbers.

In discussing the growth of the principal industrial enterprises prior to the organization of the International Harvester Co., therefore, the discussion of the history of the implement industry is naturally divided according to the lines of implements produced. The chief interest in this connection naturally attaches to the harvesting machines, as these formed the basis for the organization of the International Harvester Co. As, however, a proper understanding of more recent developments in the implement business requires some information as to the development of other lines, these also will be discussed, but in a briefer manner.

Section 5. Development of the harvesting-machine industry.

GENERAL CHARACTER OF HARVESTING-MACHINE CONCERNS. — The harvesting-machine industry developed from the manufacture of the reaper and mower. With the manufacture of these machines there was subsequently connected the manufacture of rakes. After its invention the binder came to be the most important branch of production for the harvesting-machine companies, the mower being second, and the reaper becoming quite subordinate. Practically all the binder factories which acquired any importance in the past

have continued in existence down to the present time. The most important exceptions are certain factories acquired by the International Harvester Co., either in 1902 or shortly after, which were converted to other uses.

The introduction of the binder depended on the development of a suitable binder twine, as well as on the invention of a successful knotting device. When the Deerings got out their first binder with the Appleby knotter, the question of a cheap and serviceable twine was a problem of vital importance. At first the harvester manufacturers procured their twine from established twine and cordage concerns, but the great importance of binder twine and its peculiar requirements soon led to the establishment of twine factories by a few of the large manufacturers of harvesting machines, notably McCormick, Deering, Osborne, and Aultman-Miller. A large part of the supply of binder twine, however, continued to be furnished by twine and cordage companies.

Before 1900 few of the harvesting-machine makers had developed other lines of manufacture in an important degree. The chief exception was D. M. Osborne & Co., which had a considerable line of tillage implements. The makers of harvesting machines, therefore, formed a very distinct group among the manufacturers of farm implements as a whole.

The harvesting-machine industry, which embraces primarily the production of grain and grass harvesting machines, such as binders, reapers, mowers, etc., may be said to have commenced with the establishment in 1847 of the first important factory, the McCormick factory at Chicago. Shortly after this a number of other important concerns were organized, both in the East and West, partly working under different original patents, and partly under licenses granted to two or more concerns by the inventors. With the improvement in harvesting machines, new concerns naturally arose from time to time. While the number of enterprises which were started for the manufacture of harvesting machines between 1850 and 1870 was large, only a comparatively small number ever acquired much importance, and most of these have continued in one form or another down to the beginning of the present century. Subsequent to 1870 comparatively few new enterprises were started. In the following paragraphs a brief statement is given of the principal concerns which developed in this branch of the industry during this period. These are not noted chronologically, or in order of importance, but in three groups, namely, (1) companies originally combining to form the International Harvester Co.; (2) companies subsequently acquired by the combination; and (3) companies not acquired by the combination.

COMPANIES MERGED IN THE COMBINATION IN 1902.—There were five of these harvesting-machine companies, which are mentioned below in the order of magnitude.

McCormick.—The reaper factory of McCormick, which was established in 1847, in Chicago, Ill., was not only one of the first in the field, but was also eventually the greatest harvesting-machine plant in the industry. The McCormick business was incorporated in 1879, as the McCormick Harvesting Machine Co., and down to the time of its merger with the International Harvester Co. in 1902 it was almost exclusively engaged in the manufacture of grain and grass harvesting machines. McCormick automatic wire binders were first gotten out during the seventies, and the twine binder in 1881, using the Appleby twine-knotting device, under license from the patentee.

Deering.—The origin of the Deering concern is found in a partnership established by Easter & Gammon, which underwent several changes of name. At first they were merely dealers in implements, but they acquired an interest in the factory of Marsh & Steward at Plano, Ill., in 1869. William Deering became identified with this concern in 1870, and in 1874 a partnership was formed, known as Gammon & Deering. Until 1879 its business was located at Plano. In that year the partnership of Gammon & Deering was dissolved, and Deering continued the business at a new factory established at Chicago. During the later seventies Gammon & Deering manufactured a wire binder under the Gordon patent. Deering was one of the first to exploit the Marsh harvester, but was chiefly notable for first developing commercially a twine binder using the Appleby knotting device. This achieved practical success as early as 1880. In 1883 this concern was incorporated as William Deering & Co., but this title was changed to the Deering Harvester Co., in 1894, which became a copartnership in 1899.

Champion.—About 1850 B. H. Warder established himself at Springfield, Ohio, as a manufacturer of reapers, working under licenses from the inventors, Seymour and Morgan. The business was continued under various names as new partners were admitted to the concern, the firm name becoming Warder, Bushnell & Glessner in 1879. In 1867 this concern pooled its business with another Springfield concern, known as Whitely, Fassler & Kelly, which had been established in 1856 by William N. Whitely, the inventor. A certain community of interest was thereby established, and the output of this group was known as the Champion line. The Champion Machine Co. was organized to handle their products in certain regions. In 1887 Whitely, Fassler & Kelly failed and the Warder group took over some of their assets, and in the same year the partnership was changed to a corporation, the Warder, Bushnell & Glessner Co., which thenceforward controlled all the Champion lines.

Plano.—This concern was organized in 1881 by William H. Jones. It took over the abandoned factory of Gammon & Deering at Plano, and obtained financial support from Gammon and Steward. It immediately began to manufacture grain binders and other harvesting

machines at the Plano factory. In 1893 it transferred its business to a new factory at West Pullman, Chicago.

Milwaukee.—This concern was originally known as the Parker-Dennett Co., which was organized in 1881 and located at Milwaukee, Wis. In 1884 its name was changed to the Milwaukee Harvester Co. It manufactured grain and grass harvesting machines.

As above noted, these five concerns were acquired by the International Harvester Co. in 1902.

COMPANIES SUBSEQUENTLY ACQUIRED BY THE COMBINATION.—Of the other harvesting-machine companies existing in 1902, the three following were subsequently acquired by the combination:

Osborne.—D. M. Osborne apparently first entered the farm-implement trade at Buffalo in 1856, when he became interested in the Kirby mower patents. In 1857, with some associates, he acquired shops at Auburn, N. Y., and in the following year organized the firm of D. M. Osborne & Co. This concern manufactured mowers under Kirby's patent and later took up the manufacture of a varied line of implements. In 1875 the Osborne concern absorbed the business of the Cayuga Chief Manufacturing Co., which at that time enjoyed a very high reputation. It got out a successful wire binder in 1877 under Gordon's patent. In 1882 it produced its first twine binder, but did not use the Appleby knotting device until the following year. Considerably later this concern entered into the production of tillage implements. D. M. Osborne & Co. was acquired by the International Harvester Co. in 1903.

Aultman-Miller Co.—The beginnings of this concern date from 1848, when John Miller, Cornelius Aultman, and Ephraim Ball commenced the manufacture of the Hussey reaper at Greentown, Ohio. Later they brought out and perfected harvesting machines which were known in the trade as the Buckeye. Disputes over the Buckeye patents led to an agreement between the various parties by which a community of interest was established in these patents; and subsequently thereto the Buckeye machines, as they were known, continued to be manufactured by the Aultman-Miller Co. and certain other makers, particularly Adriaance, Platt & Co., who are referred to below. The Aultman-Miller Co. came under the control of the International Harvester Co. in 1903.

Minneapolis.—The Minneapolis Harvester Co., which was organized some time in the eighties, and located at Minneapolis, Minn., was based on a manufacturing enterprise previously established concerning which the details are not known. This concern was taken over by Walter A. Wood and certain other parties in 1892, and organized as the Walter A. Wood Harvester Co., which was not a part, however, of the Walter A. Wood Mowing & Reaping Machine Co., of Hoosick Falls, N. Y., although it had to some extent the same stockholders. The business was removed to St. Paul at that time. The Walter A.

Wood Harvester Co. got into financial difficulties shortly after its organization, and was reorganized as the Minnie Harvester Co., under the control of the American Grass Twine Co. In 1903 the Minnie Co. came under control of the International Harvester Co.

COMPANIES NOT ACQUIRED BY THE COMBINATION.—The following manufacturers of harvesting machines prior to 1902 have not been absorbed by the combination. The first four only were binder manufacturers in 1902.

Wood.—Walter A. Wood was one of the pioneers in the manufacture of mowing and reaping machines, and became interested in the business about 1852, establishing a factory at Hoosick Falls, N. Y., and utilizing the patents of J. H. Manny. This concern was incorporated as the Walter A. Wood Mowing & Reaping Machine Co. in 1865. In 1870 they brought out an automatic wire binder under Locke's patent, which had a very wide sale. Later the company produced twine binders as licensee of Holmes, the inventor, this patent being the chief rival of the Appleby.

Adriance, Platt & Co.—This concern was established as makers of harvesting machines at Poughkeepsie, N. Y., some time during the fifties and was incorporated in 1882. As just stated, they made the Buckeye line. In 1894 they bought the patents, patterns, and good will of D. S. Morgan & Co., of Brockport, N. Y. D. S. Morgan was the successor of Seymour & Morgan, who began the manufacture of implements in 1844. Adriance, Platt & Co. was absorbed by the Moline Plow Co., of Moline, Ill., in 1913.

Johnston.—This enterprise was first known as Fitch, Barrie & Co., and was located at Brockport, N. Y., in the early forties. Later it was known as Huntley, Bowman & Co. It was incorporated as the Johnston Harvester Co. in 1871, and in 1882 removed to Batavia, N. Y. It appears that they used originally the Ketchum mower patents. In 1910 a controlling interest in the stock of this concern was acquired by the Massey-Harris Co., of Toronto, Canada, large manufacturers of harvesting machines and other agricultural implements.

Acme.—The beginnings of this company are found in a concern established in the late seventies by John E. Kirk, at Salisbury, Mo., which made hay stackers. This enterprise was moved in 1881 to Milan, Mo., and incorporated as the Milan Manufacturing Co. In 1883 the name was changed to the Acme Hay Harvester Co. In 1890 it purchased the harvester business of A. J. Hodges & Co., at Pekin, Ill., and changed its name to the Acme Harvester Co. This concern, in 1895, bought the business of the Minneapolis-Esterly Co., an enterprise whose origin goes back to the early forties. In 1899 it acquired the Harvester King Co., of Harvey, Ill. In 1900 the factory was

moved to Peoria, Ill., and the concern is now known as the Acme Harvesting Machine Co.

Emerson.—In 1853 the inventor, John H. Manny, started a reaper factory at Rockford, Ill.; from this enterprise developed the firm of Emerson, Talcott & Co., organized in 1860 and incorporated in 1874. This concern built Burson wire binders, which had a large success until supplanted by the twine binder. Previous to this, namely, in 1870, they had tried to get out a twine binder under Behel's patent for knotting twine, but this did not prove a commercial success on account of the impossibility of getting a cheap binder twine at that time. This concern was later reorganized as the Emerson-Brantingham Co. It never seems to have marketed twine binders to any extent, and its principal lines came to be mowers and tillage implements. In 1912 this concern absorbed several other companies producing chiefly hay tools, traction engines, thrashing machinery, gas engines, and wagons.

Thomas.—This concern, which is known as the Thomas Manufacturing Co., was established some time during the seventies at Springfield, Ohio, where it still continues to do business. It makes no binders, but manufactures principally mowers, rakes, and tillage implements.

Richardson.—This concern, now known as the Richardson Manufacturing Co., is located at Worcester, Mass., where it was at first established during the seventies. It produces mowers but no binders.

OTHER MANUFACTURERS OF HARVESTING MACHINES.—There were several other manufacturers of harvesting machines which existed prior to 1900, besides those already described or referred to, which deserve mention. Among these are George Esterly & Son, of White-water, Wis. (see p. 49); D. S. Morgan (successor to Seymour & Morgan), Brockport, N. Y. (see p. 49); J. F. Seiberling & Co. and Seiberling, Miller & Co., of Doylestown, Ohio; the Winona Harvester Works, of Winona, Minn.; and Hoover & Gamble, of Miamisburg, Ohio, whose business is now limited to twine machinery.

None of these concerns ever attained great prominence in the trade. Of course, besides these, as already intimated, there were a great number of enterprises, especially before 1870, which never attained prominence.

One other concern which deserves special mention, although not a manufacturer of harvesting machines, is the Whitman & Barnes Manufacturing Co., of Akron, Ohio. This company was a manufacturer of parts of machines for other harvester companies, and also of repair parts. (See p. 58.)

Section 6. Development of other branches of the implement industry.

There are certain other branches of the implement industry which are of importance in connection with this report either because the

International Harvester Co. has extended its activities into these lines (e. g., wagons, harrows, and engines) or because important concerns in certain of these lines (e. g., plows, tractors, engines, and thrashers) have also undertaken the manufacture of harvesting machines or other implements made by the International Harvester Co., with the result of bringing them into competition with it.

The chief lines of agricultural implements which are of importance in this connection are as follows: (1) Plows, harrows and other tillage implements; (2) drills and planters; (3) thrashers; (4) wagons; (5) manure spreaders; (6) engines; (7) cream separators.

For certain of these lines (e. g., plows and thrashers), it is important to indicate the character of some of the chief concerns, while for certain other lines it is only necessary to notice briefly the general character of the companies engaged in manufacturing them.

Plows.—Not only were plows among the first lines of agricultural implements in which a factory industry was established, but also in this branch larger concerns were developed than in any other branch of the implement industry, except that of harvesting and thrashing machines. Moreover, the plow manufacturers are the chief makers of harrows, and thus come into direct competition with the International Harvester Co.

The John Deere Plow Co., also referred to on page 188, has developed into the largest single implement concern except the International Harvester Co. It is now known as Deere & Co. The Deere company expanded its business gradually from plows to other tillage implements, planting machinery, wagons, and manure spreaders, and even 20 years ago handled such a variety of implements as to be fairly described as a "full-line" concern. This expansion of its manufacturing activity followed in the main a development of its marketing facilities. An elaborate system of distribution had been organized, with the establishment of subcompanies for marketing purposes. At the time of the formation of the International Harvester Co. it was not a manufacturer of harvesting machines, but several years ago it extended its manufacturing activities into that field also, first only in mowers, but more recently in binders.

Several other plow concerns which have been important factors in this branch of the industry are the Oliver Chilled Plow Co., of South Bend, Ind.; the Moline Plow Co., of Moline, Ill.; the Rock Island Plow Co., of Rock Island, Ill.; the Emerson-Brantingham Co., of Rockford, Ill.; the J. I. Case Plow Co., of Racine, Wis.; and the Parlin & Orendorff Co., of Canton, Ill. Of these, the first four were established in the decade preceding 1860, the fifth company being established in the following decade, and the sixth prior to 1850. The Moline Plow Co. is of especial importance because, like Deere & Co., at a comparatively early date it developed its business in other

lines, particularly in drills and wagons. As noted above, in 1913 it absorbed Adriance, Platt & Co., and thus obtained a line of harvesting machines. The Emerson-Brantingham Co. also is engaged in the production of mowers. The other three concerns confined themselves strictly to the plow and tillage implement business down to the time of the formation of the International Harvester Co. Subsequent developments with respect to these plow concerns are noted elsewhere. (See p. 188.)

While there were numerous plow concerns in the period following the Civil War, toward the end of the century there was a marked decrease. In 1884 a plow association was organized. Later a broader organization was formed, known as the National Plow Association. These two associations attempted, among other things, to restrict competition and to regulate prices, and obtained a considerable influence in both these directions. The second of these associations comprised about 20 plow concerns, including such important companies as the Deere, Moline, Parlin & Orendorff, and Avery concerns. In 1901 an effort was made to form a comprehensive consolidation of the chief plow companies, with a capital stock of \$70,000,000, but this project failed.

While the plow companies had few points of contact with the harvesting-machine companies at the time the International Harvester Co. was formed, they have become competitors since the latter took up the production of harrows, while some of them have become important potential competitors in harvesting machines in the last few years, chiefly through their development of the policy of carrying a full line.

DRILLS.—Machine methods of planting began before 1850, and two factories were organized before that date in small towns in New York State, namely, the Empire Drill Co. and Bickford & Huffman. In the decade following 1850 three important factories were established, namely, the Hoosier Drill Co., of Richmond, Ind., Thomas & Mast, of Springfield, Ohio, and A. J. Munn, of Louisville, Ky. The utility of the drill was greatly increased in the succeeding decade by the introduction of force feed. About this time also another important drill factory was established, namely, the Superior Drill Co., of Springfield, Ohio, which later took a prominent part in the organization of the American Seeding Machine Co., which is mentioned below. The drill companies, generally speaking, did not branch out into other lines of implement manufacture. In 1903 most of the important drill-making plants were consolidated into a single company, the American Seeding Machine Co. This concern established a very comprehensive control over this branch of the industry.

Although the International Harvester Co. entered into this branch of the business to a small extent shortly after its organization, it

never became an important manufacturer of such machines. In 1912, however, as noted elsewhere (p. 142), it undertook to sell three important brands of drills manufactured by the American Seeding Machine Co.

WAGONS.—Although wagon factories were established before 1850, notably the Weber and Peter Schuttler works, in Chicago, and the Mitchell works, in Racine, Wis., this business continued for a longer period than most branches of the implement business to be conducted by local mechanics also. The changed conditions in manufacture, due to the depletion of local supplies of suitable lumber, has been a special factor in eliminating small wagon shops in the last few decades. The most successful wagon manufacturers have developed in part, however, from the local wheelwright, of which the Studebaker Co., of South Bend, Ind., founded about 1860, is the most conspicuous example. The wagon makers have, to a marked extent, confined themselves either to this line or, where they have expanded their business, it has been generally in the direction of motor vehicles.

An important feature of the wagon trade was the organization of the National Wagon Manufacturers' Association. This association has had apparently a considerable influence on the prices of wagons. In 1887 it attempted unsuccessfully to form a pool among the wagon makers. Again, since 1899 several unsuccessful efforts have been made to form a general consolidation of the chief wagon manufacturers.

At the time of its organization the International Harvester Co. was not engaged in the manufacture of wagons, but later it entered this branch of business on an important scale.

THRASHERS.—In separating the grain from the chaff, the fanning mill was the first machine generally used; thrashing machines came later, but both were used in the eighteenth century. Before 1840 one type of thrasher, the so-called "ground-hog" thrasher, consisting of an open cylinder with a wooden case, had been combined with a fanning mill. By the middle of the last century steam power was being used. The J. I. Case Threshing Machine Co., of Racine, Wis., which is to-day one of the leading concerns in this branch of the implement business, was established shortly before 1850, and there were several other factories before that date. The thrasher industry developed chiefly through a number of large concerns, and most of the trade at the present time is in their hands. In 1911 the M. Rumely Co., of Laporte, Ind., an important thrasher manufacturer, absorbed two other important thrasher concerns, namely, the Gaar-Scott Co., of Richmond, Ind., and the Advance Thresher Co., of Battle Creek, Mich. The large thrasher concerns have tended to extend their business into other lines, particularly into tractors and portable engines.

This line of implements is of comparatively small significance for the International Harvester Co., as that company does not manufacture thrashers, although it sells a comparatively small number of them through its marketing organization.

OTHER MACHINES.—Of the other important classes of implements and machines which are of interest for this report, a briefer notice is sufficient.

The development of the manure spreader is of comparatively recent date. Manure spreaders have generally been manufactured by concerns working on particular patents and not engaged in the production of other implements or machines. The number of important manufacturers is comparatively small, but includes some of the largest plow concerns.

Cream separators are generally made by concerns not engaged in the manufacture of other farm machinery.

The farm engine has recently become a very important machine and is produced by a considerable number of manufacturers, most of whom are not engaged to an important extent in making other classes of farm machines. In some cases, however, one or two other classes of machines or vehicles are produced by concerns making farm engines.

Tractors are another important class of farm machines. They are manufactured chiefly by large thrasher concerns.

In each of the four lines mentioned above, the International Harvester Co. has become an important factor.

EXTENT OF "FULL-LINE" DEVELOPMENT.—Taking the implement and vehicle industry as a whole, the general characteristic prior to the beginning of the present century was specialization of manufacture in particular lines.

The plow companies, as a general rule, made other tillage implements, and in some instances, also, a few other kinds of machines. Some of them had developed a marketing organization also, through which they did a jobbing business in machines manufactured by other concerns. In this way some of them approached to what may be fairly called a "full line," though none of the larger plow companies made harvesting machines or handled them to any considerable extent.

The harvesting-machine companies made, of course, several distinct kinds of machines, particularly binders, reapers, mowers, and rakes, and sometimes, in addition thereto, corn binders. In one or two instances they also produced tillage implements. The "full line," however, was nowhere really developed among the harvesting-machine companies before the formation of the International Harvester Co.

The companies in the other chief branches of implement manufacture, as shown above, were generally restricted to one or two

principal lines, such as wagons and thrashers; in engines and tractors there was not a very extensive industry along present lines before 1902.

The recent development of the "full line" and its significance in the implement industry will be noted in another place (p. 188).

Section 7. Methods of sale and distribution in the harvesting-machine trade.

An important feature of the harvesting-machine industry was the development at an early date of an elaborate system of distribution by the manufacturer. Similar methods were employed to a considerable extent in other branches of the implement trade also. While such methods of sale of products are not uncommon at the present time, they were especially characteristic of this industry almost from the beginning. The principal explanation for this early development is to be found in the fact that the most important agricultural sections of the country were to a large extent recently settled, and the farmers were comparatively poor. Moreover, the credit facilities of the chief farming sections of the country were not adequate, apparently, to the need of agricultural development; the farmer, especially the new settler, was often unable to pay cash for the machines that were absolutely essential to the successful working of his farm, but, if furnished with such machines, was in a position to pay for them in installments from the proceeds of his crops. Manufacturers who produced and sold for cash would have, therefore, a limited market, while those who could give credit would greatly enlarge their sales. From these circumstances developed the practice, particularly among more successful manufacturers, such as McCormick, of selling their machines to the farmers on credit, the trade being conducted through retail dealers, who became local agents for the manufacturer for their respective localities. The usual form of payment made by the farmer for such machines was a part payment in cash at the end of the harvesting season and a promissory note or notes for payment of the balance in one or two annual installments. Such notes were generally guaranteed by the retail dealer who acted as the local agent for the manufacturer.

The advantage of this system not only to the farmer, who thereby got his machines on credit, but also to the manufacturer, who was thus enabled to foster a much larger demand, led to its rapid development on an elaborate basis. It became necessary for the manufacturer to have large warehouses and general agents at various places in order to supply the retail dealers in the vicinity and to exercise some control over the credit extended to farmers. It also became necessary to furnish the retail dealer and farmer with mechanical experts to supervise the setting up and starting of the machines (which were shipped in several packages, or "knocked down"), to explain the proper method of operating them, and to

repair them if they broke down. The retail dealer had also to carry in stock supplies of repair parts furnished by the manufacturer, so that if such breakdowns occurred during the harvesting season the machines could be put into working order without loss of valuable time or even of the crop itself. This elaborate system of distribution through retail dealers also gave to the concern which developed it on a large scale not only a much more intimate knowledge of the local demand, but also a better hold on the trade of the farmers, particularly through the use of canvassers who visited the farms and obtained orders from them which were filled through the local agent or retail dealer. The manufacturer, retail dealer, and farmer were brought into very close relations.

This method of distribution involved, of course, a very large selling expense, but the proportion of selling expense to the total sales, or the amount of selling expense per machine, tended to be much lower for concerns which did an extensive business than for small concerns, unless the latter limited their business to a restricted territory or adopted a different and less effective system of distribution. This method of distribution, therefore, gave great competitive advantages to the large concerns.

During the manufacturing season which preceded the selling season the manufacturer of harvesting machinery produced a quantity of machines, the number of which was calculated partly on orders from the farmer, partly on orders from the retail dealer, and partly on the expected demand as indicated by crop conditions, etc. This system of production and sale involved a large investment in raw material, partly manufactured machines, and finished machines, as compared with the investment in plant, because the turnover of the manufacturer was practically only once a year. Furthermore, the system of payment by installments tied up a large amount of the manufacturer's capital in farmers' notes, although, of course, interest—and often a very high rate of interest—was payable on them. Both of these factors, however, gave additional advantages to the manufacturing concerns which had large capital and credit.

Specific and detailed descriptions of the distributing system and business methods of the McCormick company are shown in Exhibits 1 and 2. These statements were made by the representatives of the McCormick Harvesting Machine Co. to George W. Perkins, of J. P. Morgan & Co., the financial promoters of the International Harvester Co., shortly before the merger in 1902.

Section 8. Competition and combination in the harvesting-machine industry prior to the International Harvester Co.

Before the organization of the International Harvester Co. in 1902 the harvesting-machine industry was generally subject to competitive conditions, and particularly in the decade immediately preceding that

date. The natural tendency toward concentration of production in a comparatively small number of large factories which made itself generally felt in the implement industry was likewise in evidence in this branch. This was particularly true for the more elaborate machines, such as binders. The comparatively simple lines, such as horse hay rakes, continued to be produced by a more numerous group of manufacturers. The rapid improvements in the processes of manufacture, together with the growth of large factories, resulted in great reductions in cost of manufacture and, under the influence of competition, in marked reductions in price also.

Efforts were made by the harvesting-machine manufacturers to check the reduction of prices by means of loose agreements on prices at various periods during the eighties, especially in 1887, but apparently without influencing the market conditions in a very important degree. Furthermore, in 1887 a meeting of the manufacturers of harvesting machines was held in Saratoga, with a view to establishing a general consolidation in this branch of the implement business, but this was without practical result. Another attempt of the same sort was made in 1890, which came near realization. Indeed, a general consolidation was planned and a company entitled the "American Harvester Co." was incorporated under the laws of Illinois for this purpose.

AMERICAN HARVESTER Co.—The chief promoter of the American Harvester Co. was A. L. Conger, president of the Whitman & Barnes Manufacturing Co., of Akron, Ohio. Some time before the end of 1890 he succeeded, apparently, in obtaining options on the plants of about 20 different manufacturers of harvesting machinery,¹ including the McCormick, Deering, Walter A. Wood, Johnston, Adriance-Platt, Milwaukee, Champion, Plano, Aultman-Miller, and Whitman &

¹ The companies which were to be merged into the American Harvester Co. were as follows:

Aultman, Miller & Co.	Akron, Ohio.
Adriance, Platt & Co.	Poughkeepsie, N. Y.
Deering (William) & Co.	Chicago, Ill.
Emerson, Talcott & Co.	Rockford, Ill.
Esterly Harvesting Machine Co.	Whitewater, Wis.
Hoover & Gamble	Miamishurg, Ohio.
Johnston Harvester Co.	Batavia, N. Y.
McCormick Harvesting Machine Co.	Chicago, Ill.
Milwaukee Harvester Co.	Milwaukee, Wis.
Minneapolis Harvester Co.	Minneapolis, Minn.
Morgan (D. S.) & Co.	Brockport, N. Y.
Osborne (D. M.) & Co.	Auburn, N. Y.
Plano Manufacturing Co.	Chicago, Ill.
Richardson Manufacturing Co.	Worcester, Mass.
Seiberling, Miller & Co.	Doylestown, Ohio.
Seiberling (J. F.) & Co.	Doylestown, Ohio.
Wood (W. A.) Mowing & Reaping Machine Co.	Hoosick Falls, N. Y.
Warder, Bushnell & Glessner Co.	Springfield, Ohio.
Whitman & Barnes Manufacturing Co.	Akron, Ohio.
Whiteley (Amos) & Co.	Springfield, Ohio.

Barnes. The Whitman & Barnes Manufacturing Co. was itself a consolidation of 13 mower and reaper knife-making concerns, and sold its output to practically the whole trade, including the McCormicks and Deerings.

The leading manufacturers who were interested in this proposed consolidation held meetings in Chicago in September and November, 1890, at which the plans for the merger were developed. On November 19, 1890, the American Harvester Co. was incorporated in Illinois, and was authorized to engage in the manufacture of harvesting machines, other agricultural implements, twine, etc. The authorized capital stock was fixed at \$35,000,000, and according to the official records of the State was subscribed to as follows:

Walter A. Wood	\$4, 000, 000
William Deering	5, 000, 000
Cyrus H. McCormick	8, 750, 000
Lewis Miller	3, 000, 000
Asa S. Bushnell	3, 000, 000
A. L. Conger	5, 000, 000
Do	6, 250,000
<hr/>	
Total	35, 000, 000

A part of A. L. Conger's subscription apparently was intended to be issued to various concerns which were to be brought into the consolidation, but which were not represented among the subscribers in the foregoing list. The above-mentioned subscribers to the stock held a meeting and elected themselves directors of the American Harvester Co., together with one William C. Goudy. The officers elected were as follows: President, C. H. McCormick; vice president, Walter A. Wood; chairman and treasurer, William Deering; general manager, E. K. Butler; secretary and assistant general manager, A. L. Conger.

It was said that the new company would divide the markets of the United States into three divisions, and that E. K. Butler would manage the western division, A. L. Conger the middle division, and Walter A. Wood the eastern division.

The officials of the American Harvester Co. went so far apparently as to send out forms of contracts with definitely fixed retail prices, and to notify some employees of the merged companies that their services would not be needed any longer. Meantime it seems some of the parties interested became convinced that the merger involved taking over numerous plants at excessive valuations, which would not only be prejudicial to their particular interests, but also would tend to endanger the financial success of the undertaking. It is not quite clear how far the various parties connected with the American Harvester Co. were committed to this project, but ap-

parently definite agreements for the transfer of property had been executed. It is understood, however, that these agreements were finally abrogated on the basis of legal advice that this could be done, inasmuch as they were void as being in restraint of trade. Thus the American Harvester Co. became practically defunct a few weeks after it was formed.

COMPETITION DURING THE NINETIES.—From 1890 until the formation of the International Harvester Co. in 1902, there does not appear to have been any attempt to form a general consolidation of the harvesting-machine companies. In fact, throughout this period competition appears to have been very active. The chief, if not the only, exception to this statement appears to have been in 1900, when there was apparently a gentlemen's agreement as to prices between the McCormick and Deering concerns, which may have included some of their competitors also.

The fact that this period was one of active competition has been insisted upon by the chief representatives of the harvesting-machine companies, who, indeed, have declared that during this period competition was carried to an excessive degree. Several statements to this effect were made by witnesses in judicial proceedings in Missouri in 1908, excerpts from which follow :

Testimony of Cyrus H. McCormick.

Q. Was the competition in the country pretty fierce prior to 1902?—A. Yes, sir; it was.

Q. That is, by "fierce" I mean, and I suppose you understand, that there were vigorous efforts made by each company to sell its machines to the retail dealers and farmers?—A. Yes, sir; it was.

Q. You adopted methods of advertisement and the employment of special agents to convince the retail dealers and the public that your machines were better than the others?—A. Yes, sir; we did.

Q. That is a correct statement?—A. Yes, sir.

Q. During that time, I suppose, during these years from 1891 to 1902, you carried on the same method of competition, and they carried on the same that you did?—A. About the same manner, I think.

Q. There was no combination or agreement to fix prices or restrain competition between these six leading companies?—A. No, sir; none whatever.

* * * * *

Q. Was a part of the unstable conditions incident to this unsettled condition prior to the formation of the New Jersey corporation a variation from the listed price and the selling of the machines, did that constitute a part of the unbusinesslike methods that you mentioned?—A. The unbusinesslike methods were a multitude of things.

Q. That a part of it?—A. Yes, sir.

Q. That is, the Deering people would have a machine listed at \$90 and let the dealer have it for \$80?—A. Yes, sir.

Q. Was that a common practice in giving of rebates?—A. All kinds of subterfuges for modifying prices, taking old machines at large values when they had no value, throwing in other property, wasteful expenditure of money and time and salary of men.

Q. I was not asking you what you complained [of] in detailed statement. I asked you if the selling below listed prices was one; was that true?—A. Yes, sir.

Q. Now, since that time did you make one price on paper and get another price from the dealer?—A. We do not.

Q. You maintain the prices listed?—A. Yes, sir.

Q. And before that consolidation that was not done by any of the companies?—A. Was not done so generally.

Q. Well, the truth of the matter is that a very large proportion, if not the larger proportion, was made; the sales were made below the listed price?—A. I could not say about the larger proportion.

Q. But a large proportion was?—A. Yes, sir.

Testimony of John J. Glessner.

Q. Did not the Champion, the Deering, McCormick, and Plano have the best business here in Missouri?—A. I think so.

Q. You all were competitors of each other?—A. Yes, sir.

Q. There was no understanding or agreement, secret, between you people prior to 1902?—A. No, sir.

Q. There was actual competition between you?—A. Yes, sir.

Q. The fact is, the competition was pretty vigorous?—A. Yes, sir; we tried to make it so.

Q. The competition of the harvester business had been more pronounced in their early part?—A. No, sir; it grew [in] bitterness and extended right along.

Q. You think it increased?—A. Yes, sir.

Q. You think there was more competition in 1902 in the harvester business than any time before?—A. It depends on what you can call competition. It was a bitter fight between everybody to get business and get the better of your competitor.

* * * * *

Q. Mr. Glessner, previous to 1902 you described the competition that was general throughout the United States in the harvesting machine business. I want to ask you a little more about it. What was the nature of that competition?—A. Well, it was to affect sales primarily and incidentally or indirectly to prevent somebody else from making sales.

Q. You are aware, as a matter of general information, of the competition that exists between different stores or between different manufacturers in order to sell their goods, was that the character of competition that was in vogue prior to 1902?—A. No, sir; I think in the harvester business there was a competition never known in any other business in the world.

Q. What way?—A. We did everything we could possibly do that would prevent our neighbor from making a sale. We had a very large number of salesmen out on salary, and these men, of course, were instructed that they had to produce results; if they did not get results, we did not want them; they would do anything, it did not make any difference what it was, to make a sale. It had been the custom to make a house-to-house canvass to find out who would probably want machines; as quick as one man would sell a machine his neighbor or competitor would follow after him to get the purchaser to give up that machine and take another one. The result was there were field trials which would not give the order to the most successful machine, but to the agent who made the most promises. I know when I was in competition I naturally would show my machine off the best I could. I naturally thought my machine was the best, and the farmer said it was the best, but he said, "I can not afford to take your machine, because this other man says he will take \$15 discount"; and then I said, "I will make \$15 discount"; then the other man said, "I will take off ten more"; then I made it ten more; and it kept up until he got the price down less than half, so the farmer said, finally, "I will take them both."

Testimony of Wm. H. Jones.

Q. In the years preceding 1902 you said the competition was demoralizing?—A. Yes, sir.

Q. By competition, I generally understand that that rivalry between firms that brings down the prices of goods and enables the consumer in a fair competition to get the benefit. What do you mean by demoralized competition?—A. Busting up one another's orders.

Q. Well, now go on and tell all about it.—A. That was a common practice.

Q. How do you mean "by busting one another's orders"?—A. For instance, you are a farmer, our agent could take your order for machinery, and Mr. Glessner's man would get on to that and would try to bust the orders—our orders—turn ours back; that is what I mean.

* * * * *

Q. Did not this fierce competition you have been talking about, did not that result in the cutting of prices?—A. The dealers were not making anything nor the manufacturers.

Q. Well, the dealers did not petition you to form the combination?—A. No, sir; but they were going out of business the way they were doing.

Q. How many had gone out of business in Missouri?—A. I don't know; as a general thing they would naturally, though.

Q. Did they not handle them on a commission?—A. They did not get the price; they cut the price and they were to pay us so much.

Q. So the person that was being benefited by this competition was the farmer?—A. The farmer is better off to-day than ever before.

Q. He was getting his binders cheaper?—A. Yes, sir; but buying them more than he needed.

Testimony of C. S. Funk.

Q. Were you familiar with the conditions during the 10 years prior to 1902?—A. Yes, sir.

Q. What were these conditions?—A. More like guerilla warfare than anything else.

Q. Illustrate and describe it.—A. I was the sales manager of the Champion Company in later years; I know that my efforts were devoted as much to tearing down the other fellow's organization as the building up of my own, and I frequently spent several times over the price of a machine trying to make my own machine stick and knock out the other fellow's.

Representatives of the International Harvester Co. have tried to justify its formation on the ground that competition was destructive and resulted in numerous failures of harvesting-machine companies. However, the only concerns mentioned by Cyrus H. McCormick in the Missouri case, as failing during the decade preceding the formation of the International Harvester Co., were the St. Paul, Seiberling, Winona, and Esterly companies. None of these companies was an important manufacturer of harvesting machines. These few failures are generally attributable to deficient resources or management or poor location rather than to excessive competition. The whole tendency of the implement business, not only in harvesting machines, but also in other lines, was toward concentration into a comparatively small number of concerns, due to the superior efficiency of the larger companies. In the harvesting-machine branch, moreover, the competition was not so severe as to prevent most of the larger companies from making considerable profits, and sometimes very large profits, which were largely reinvested in the business.

PROFITS OF HARVESTING-MACHINE COMPANIES PRIOR TO THE MERGER.—Specific information as to the amount of profits earned by harvesting-machine companies in the years immediately preceding the merger of 1902 is limited to the five concerns which originally entered that consolidation, namely, the McCormick, Deering, Champion (Warder, Bushnell & Glessner Co.), Plano, and Milwaukee companies. This list, however, embraces the two most important harvesting-machine companies, and three of the six companies which may be said to have occupied the second rank. Profits for the above-mentioned companies, moreover, are not generally available for years prior to 1898. For the five years from 1898 to 1902, inclusive, the net profits of these companies are shown in the table following.

TABLE 3.—NET PROFITS OF FIVE SPECIFIED HARVESTING MACHINE COMPANIES, 1898-1902.¹

Year.	McCormick. ²	Deering.	Champion. ²	Plano.	Milwaukee. ²	Total.
1898.....	\$4,723,985.26	\$3,040,704.99	\$724,730.49	\$516,781.49	\$514,376.52	\$9,520,578.75
1899.....	4,560,157.78	3,071,462.33	709,212.98	426,586.13	694,507.25	9,461,926.47
1900.....	3,914,745.81	2,647,375.12	209,835.96	\$ 54,842.24	254,197.65	6,991,312.30
1901.....	4,844,736.38	2,281,035.87	208,796.04	\$ 76,025.16	85,680.27	7,343,323.40
1902.....	5,042,780.55	3,830,076.04	318,249.47	89,848.15	355,674.56	9,636,628.77
Total.....	23,086,405.78	14,870,654.35	2,170,824.94	921,448.37	1,904,436.25	42,953,769.69
Average.....	4,617,281.16	2,974,130.87	434,164.99	184,289.67	380,887.25	8,590,753.94

¹ The profits as shown in this table were compiled from statements made by Jones, Caesar & Co., a firm of accountants, but take into account items which they disregarded in accordance with their instructions in the determination of good will. The balance sheets of the McCormick Co. for 1901 and 1902 show profits of \$4,631,809.36 and \$5,125,565.25, respectively, and the balance sheets of the Deering Co. for 1901 and 1902 show profits of \$2,357,995.61 and \$4,183,940.93, respectively.

² The profits of the McCormick and Milwaukee companies for the years 1895 to 1897, inclusive, were as follows:

Year.	McCormick.	Milwaukee.
1895.....	\$2,620,839.48	267,587.97
1896.....	2,743,192.32	164,467.69
1897.....	2,754,634.31	210,302.29

* Warder, Bushnell & Glessner Co.

* Eight months.

* Loss.

In general, the profits shown in the above table were very good, and the average for the five years for each of the companies, except the Plano, was fairly high.¹ The Plano company, however, showed a loss in two years, namely, 1900 and 1901, while its profits were low in 1902. The profits of the Milwaukee company also were low in 1901. On the other hand, the profits of the McCormick and Deering companies were very high in each of the five years, while those of the Champion and Milwaukee companies were generally high also.

The rate of profit on the net book assets at the end of the year for the McCormick, Deering, and Milwaukee companies, as shown by their own books, for the business years most nearly corresponding to the calendar years 1901 and 1902 were as follows:

Company.	Rate of profit.	
	1901	1902
McCormick ²	12.3	11.7
Deering ²	12.1	17.9
Milwaukee ²	2.9	11.0

¹ In this connection it may be noted that the Champion company paid salaries of no less than \$25,000 per annum to both the president and the vice president, who were among the largest stockholders in the company. The president of the Plano company, who was likewise the largest stockholder, was paid a salary of \$15,000 per annum, only \$3,000 less than the president of the McCormick company.

² Years ending Sept. 30, 1901 and 1902.

² Years ending Jan. 31, 1902 and 1903.

These 1902 profits may have somewhat overstated the net earnings available for dividends, and the book assets are not an entirely satisfactory criterion for judging their exact significance; but it is certain that such profits were liberal.

Again, taking the aggregate profits of these five companies for the years 1898 to 1902, inclusive, in no year did they fall below \$6,900,000.

The net earnings of the International Harvester Co. were not as high as the aggregate earnings of these five companies in either 1898, 1899, or 1902, until after the year 1908. That is to say, in three of the five years for which the profits of these companies are shown, the aggregate annual profit was greater than the reported profit of the International Harvester Co. during any one of the first six years of its existence. (See p. 211.)

While the profits for these five companies collectively were considerably higher in 1898 and 1899 than in 1900 or 1901, they were highest of all in 1902. It is possible that the pending merger in 1902 tended to limit the severity of competition in that year, and thus to increase profits.

Hence, while competition appears to have been quite active during the five years preceding the formation of the International Harvester Co., the profits of most of the large companies were quite high.

INCREASE IN VOLUME OF PRODUCTION.—Undoubtedly one of the important factors in making the harvesting-machine business profitable during the decade preceding the organization of the International Harvester Co. was a rapid increase in the volume of output. The number of harvesting machines produced in the census year 1899 (which, however, was an exceptional year) shows a very great increase over the number found in the census year 1889, as is shown by the following table for binders, mowers, and horse rakes:

TABLE 4.—NUMBER OF BINDERS, MOWERS, AND RAKES PRODUCED IN THE UNITED STATES, ACCORDING TO THE CENSUS REPORTS FOR THE YEARS 1889 AND 1899.

Machine.	1889	1899	Per cent increase.
Grain binders and headers ¹	125,942	233,542	85.4
Mowers ²	170,893	397,561	132.6
Horse rakes	114,790	216,345	88.5

¹ Including grain harvesters.

² Excluding combined mowers and reapers.

Complete data are not available for comparing the number of machines sold by the companies which went into the International Harvester Co. The following table shows, however, the numbers sold of the two chief kinds of harvesting machines for the five years 1898 to 1902, except that data are missing for the Deering company for the first two years.

TABLE 5.—NUMBERS OF BINDERS AND MOWERS SOLD BY THE FIVE COMPANIES FORMING THE INTERNATIONAL HARVESTER CO., BY YEARS, 1898-1902.

I. Binders.¹

Year.	McCormick.	Deering.	Plano.	Champion.	Milwaukee.	Total.
1898.....	66,649	(²)	13,147	20,835	12,895	(²)
1899.....	62,203	(²)	17,515	24,991	14,226	(²)
1900.....	48,268	43,545	16,367	21,211	10,228	139,619
1901.....	55,299	50,771	16,960	24,472	³ 13,525	161,027
1902.....	⁴ 67,592	60,981	15,344	23,480	³ 12,627	180,024

II. Mowers.

Year.	McCormick.	Deering.	Plano.	Champion.	Milwaukee.	Total.
1898.....	85,458	(²)	12,775	30,452	12,792	(²)
1899.....	105,680	(²)	19,565	36,225	17,512	(²)
1900.....	104,877	75,103	18,727	34,345	15,517	248,569
1901.....	118,702	91,905	20,705	39,704	³ 16,550	287,566
1902.....	⁴ 129,066	92,494	20,545	35,655	³ 20,120	297,880

¹ Includes harvesters (not headers).² Data missing.³ Number produced.⁴ Another statement shows 66,816 harvesters and binders, and 128,677 mowers.

Considering first the totals, which are available only for three years, 1900 to 1902, inclusive, this table shows a marked increase in the numbers of binders and mowers sold. Comparing 1900 with 1902, the increase in the number of binders was 29 per cent, and in the number of mowers 20 per cent. The greater part of this increase was due to the increase in the output of the McCormick and Deering companies. For the McCormick company the increase for the same two years was 40 per cent for binders and 23 per cent for mowers, while for the Deering company the increase was the same, namely, 40 per cent and 23 per cent, respectively. In both cases the year of largest output was 1902. For the McCormick company the increase from 1898 to 1902 in the number of binders sold was very small, but there was a large increase in the number of mowers.

For the other three companies, the numbers sold in 1902 were not generally quite so large as in 1901; in some cases 1899 was the best year in this respect. Nevertheless, whether for binders or for mowers, the average number sold for the five-year period for each of these companies was not generally so large as the number sold in 1902. Two exceptions are found, namely, binders for both the Plano and the Milwaukee companies, but in each of these cases the average was only slightly higher than the figure for 1902. For 1901, the numbers sold of both binders and mowers was greater than the average for each of these three companies. For 1901 and 1902 combined, the volume of business, either in binders or mowers, was larger for each of these companies than for the two preceding years, except for binders in the case of the Plano company. Hence for these

three companies also, the conditions of output just prior to the merger were favorable.

It appears, therefore, that not only were the McCormick and Deering companies enlarging and expanding their business, but also that the volume of business of the Champion and Plano companies was comparatively large during the two years preceding the merger.

This large increase in the volume of business taken in connection with the comparatively high rates of profits earned on the capital invested is strong evidence of the fact that the companies which originally formed the International Harvester Co. were generally not suffering from excessive competition. The combination, therefore, can not be justified on the principle of self-preservation.

CHAPTER II.

FORMATION OF THE INTERNATIONAL HARVESTER CO.

Section 1. General character of this consolidation.

The International Harvester Co. was organized under New Jersey laws in August, 1902. It merged the business of the five principal manufacturers of harvesting machines, as follows:

	Capital stock.
McCormick Harvesting Machine Co.....	\$2, 500, 000
Deering Harvester Co.....	¹ 3, 000, 000
Warder, Bushnell & Glessner Co.....	3, 000, 000
Plano Manufacturing Co.....	1, 000, 000
Milwaukee Harvester Co.....	1, 000, 000

As will be shown in some detail later, the capital stock of these companies does not even approximately indicate the amount of their net assets or their relative importance. The personnel of the stockholders, on the other hand, is of especial significance.

The company at its organization embraced about 85 per cent of the total production of harvesting machines in the United States.

The McCormick Harvesting Machine Co., which was the largest of these concerns with respect to both net assets and volume of business, was an Illinois corporation, organized September 11, 1879, and had a factory at Chicago. Practically all of its stock was held by members of the McCormick family.² Cyrus H. McCormick was president and Harold F. McCormick secretary. Both of them were sons of the inventor and founder of the company, Cyrus H. McCormick the elder.

The Deering Harvester Co., which was second in importance, was a copartnership organized under the laws of Illinois in 1899, succeeding to a corporation of the same name. It had a factory at Chi-

¹ Capital.

² The stockholders of the McCormick Harvesting Machine Co. and the shares of stock held by them at the time of the merger were as follows:

	Shares.
Nettle Fowler McCormick.....	5, 730
Nettle Fowler McCormick.....	} 3, 038
Eldridge M. Fowler, trustee.....	
Cyrus H. McCormick, jr., trustee.....	
Cyrus H. McCormick.....	5, 300
Harold F. McCormick.....	3, 502
Stanley McCormick.....	3, 728
Eldridge M. Fowler.....	200
W. R. Selleck.....	1
Anita McCormick Blaine, guardian of Emmons Blaine, minor.....	1
Anita McCormick Blaine.....	3, 500

cago. The members of the firm were Charles and James Deering and Richard F. Howe, a brother-in-law of the Deerings. The two Deerings were sons of one of the founders of the enterprise, William Deering.¹ It also, therefore, was a strictly family concern. This company, besides its implement factory in Chicago, had iron-ore leases in the Mesabi Range, a steel plant under construction, and an interest in iron works in Chicago and timber properties in the South.

The Warder, Bushnell & Glessner Co. was an Ohio corporation, organized October 18, 1886, which made the "Champion" line of harvesting machines, with a factory at Springfield, Ohio. A large part of the stock at the time of the merger was held in about equal parts by Asa S. Bushnell and J. J. Glessner. There were only two other stockholders of any importance, apparently, who were active in the business, but it is understood that a large block was held by the Warder estate.² J. J. Glessner was president and G. B. Glessner secretary.

The Plano Manufacturing Co. was an Illinois corporation, organized March 3, 1881, with a factory at Plano, near Chicago, later moved to West Pullman. A large amount of the stock was held by W. H. Jones, president and founder of the company. Other members of his family also held considerable amounts of stock.³

Most of the large stockholders in these four companies, as will be shown later, became stockholders in the International Harvester Co.

The Milwaukee Harvester Co. was a Wisconsin corporation, organized December 15, 1881, and originally called the Parker-Dennett Harvesting Machine Co. It had a factory at Milwaukee. The holders of this stock shortly before the merger were Stephen Bull, G. H. Schulte, Frederick Robinson, Frank K. Bull, Richard T. Robinson, and C. L. McIntosh. In the case of this company, in distinction from the others just mentioned, the old stockholders were bought

¹ Large amounts of money were loaned to the Deering Harvester Co. by Wm. Deering and Wm. Deering & Co. Thus the balance sheet of the Deering Harvester Co. for Feb. 1, 1902, shows the following liabilities:

William Deering, cash loan-----	\$2, 929, 346. 49
William Deering, special account-----	1, 484, 672. 89
William Deering & Co.-----	2, 765, 811. 13

² Some of the stockholders of the Warder, Bushnell & Glessner Co., and the shares of stock held by them at the time of the merger, are reported as follows:

	Shares.
Asa S. Bushnell-----	842
J. J. Glessner-----	841
G. B. Glessner-----	150
R. C. Haskins-----	100

³ Some of the stockholders of the Plano Manufacturing Co., and the shares of stock held by them at the time of the merger, are reported as follows:

	Shares.
W. H. Jones-----	1, 822
O. W. Jones-----	250
G. R. Jones-----	25
W. O. Jones-----	25
Archer Brown-----	837
J. P. Prindle-----	240
S. J. Llewellyn-----	230
W. F. Boyd-----	4

out, so that they had no connection with the International Harvester Co.¹

This great combination was formed with the assistance of the banking house of J. P. Morgan & Co., which, between 1898 and 1902, had organized other combinations of competing concerns, such as the Federal Steel Co., the National Tube Co., the American Bridge Co., the United States Steel Corporation, and the International Mercantile Marine Co. All of these combinations took the form of large corporations in which the various companies acquired were consolidated. Other bankers and promoters within the same period had organized many similar consolidations. Indeed, this period was characterized by such a degree of activity in this direction that the movement toward combination has been aptly described as a "consolidation craze."

Section 2. Motives for forming the consolidation.

The principal purposes which inspired the promoters of these various consolidations were, generally speaking, three, namely: (1) To eliminate competition; (2) to reduce costs and expenses; and (3) to issue inflated securities. But all of these purposes were not always combined in the case of a particular consolidation.

Testimony as to the purposes of the Harvester consolidation was given in judicial proceedings in Missouri in 1908 by some of the chief representatives of the International Harvester Co. This testimony was to the effect that the chief purpose of its organizers was to abolish what they called the "unbusinesslike" conditions which prevailed as a result of the competitive methods referred to in their testimony as cited above (p. 59).

W. H. Jones, of the Plano company, stated explicitly that the merger was organized to abolish competition. This is shown by the following excerpt from his testimony:

Q. Your business was not as prosperous as the McCormicks?—A. No, sir.

Q. You think the McCormick was crowding you out of the home market?—A. No question about that. The survival of the fittest.

Q. You think McCormick was the survivor?—A. Yes, sir; had more capital and the best chances in more ways than the rest of us.

Q. So, in order to get rid of this fierce competition you formed this new organization?—A. We had to do it or wind up the business. If we had not, we would have thrown all of our men out of employment. The best thing to do was to get rid of the fierce

¹The stockholders of the Milwaukee Harvester Co. at the actual date of the merger were simply representatives of J. P. Morgan & Co., the financial promoters. All the shares, except 8 shares to qualify directors, were in the name of Arthur W. Fairchild, an employee of the company.

competition; to get rid of the waste of money in canvassers. We have not half as many canvassers to-day as we did have.

Q. The canvassers were necessary to maintain your competition?—A. Before that we did it to beat one another out of business.

Q. Is that not what you call competition?—A. Pretty sharp competition.

Q. It was to get rid of that you made your combination?—

A. Yes, sir; to better the entire thing; no question about that.

Another reason alleged by its founders for the consolidation was that it would increase economy of operations by enabling them, on the one hand, to produce their own raw materials and, on the other hand, to diversify their lines of machines and implements. Thus, Cyrus H. McCormick testified as follows:

We came to the conclusion if we could enlarge the business;
* * * the McCormick business and get in more capital, cover a larger field, build more machines and different kinds of machines, and get back to the raw material our profits would be greater, and we could make a greater success of the business.

Finally the promoters of the merger declared that one of their motives was to develop and increase the export trade in agricultural implements. On this point Cyrus H. McCormick testified as follows:

Q. Was there any other purpose?—A. Well, another purpose was to help in regard to the foreign manufacture, the development of the business was such that it was evident that some capital would be required and this was the method of getting it.

There is no doubt that the principal motive for the formation of the International Harvester Co. was to eliminate competition and to secure a dominant position in the trade. This was also the salient fact of the transaction. The purpose of reducing costs and expenses by organizing a single great concern from several large ones was a secondary motive. As the plan was finally carried out, the usual practice of inflating the issues of stock was not attempted in any marked degree. The close ownership of the companies merged, as well as the market conditions in 1902, probably explain this variation from the usual practice in the consolidations which were organized at that time.

It is noteworthy that not only did this combination include the great bulk of the total production of harvesting machines in the United States, but also that the only important companies manufacturing such machines which were not included in the combination were those located in New York State, none of which was a very important factor in the principal markets for harvesting machines in the United States, namely, the States drained by the Mississippi River. Together with the two greatest rivals for the sale of harvesting machines in the United States, namely, the McCormick and Deering companies,

were included, therefore, all of their chief competitors in this great region. Those which were not included in the combination marketed their products chiefly in the North Atlantic seaboard States and in foreign countries.

The economy in production costs which could be expected from such a combination as this depended chiefly on the concentration of production of particular kinds of machines at particular plants. While in certain industries, notably the steel industry, there were considerable advantages to be obtained in certain kinds of consolidations through integration (i. e., the linking together of successive stages of production under one control), not so much advantage in this direction could be anticipated from a consolidation of the leading manufacturers of harvesting machines. It is true that one of these companies especially, namely, the Deering, had begun just before the merger to extend its operations in the direction of acquiring raw-material properties, such as iron-ore leases and iron and steel works, and also timber property and sawmills. The advantage of this policy in respect to iron and steel production was questionable, so far as any one of these companies taken alone was concerned, but the situation was different for such a large consolidation as the International Harvester Co. This question will be discussed in some detail later. (See p. 267.) The principal economy to be anticipated in such a consolidation lay chiefly in the reduction of selling expenses by uniting the sale of the product of all the companies in the hands of a single selling organization. The actual results achieved in this respect will be considered below.

As noted, some importance was attached by the organizers of this consolidation to the extension of the foreign trade. It should be understood in this connection, therefore, that a considerable foreign trade had already been developed by the chief companies which entered the consolidation. Thus, Cyrus H. McCormick testified as follows:

Q. You have no definite knowledge. Now, prior to the organization of the New Jersey Company, the McCormick had sold machines abroad, had they not?—A. Yes, sir.

Q. Had a regular foreign trade?—A. Yes, sir.

Q. And the Deering?—A. Yes, sir.

Q. The Plano?—A. Yes, sir.

Q. The Milwaukee Company?—A. Yes, sir.

Q. The Warder Bushnell and Glessner Company?—A. Yes, sir; rather small.

Q. Had some foreign trade?—A. Yes, sir.

Q. Your foreign trade prior to 1902 was large?—A. Very large.

Q. What per cent of your business?—A. I never figured it up by per cent., the substantial per cent., fifteen or twenty per cent.

Furthermore, the four principal harvesting-machine companies in New York State, namely, the Osborne, Johnston, Wood, and Adriance-Platt companies, had a relatively large proportion of sales in export markets. In fact, American harvesting machines were then sold all over the world.¹

Inasmuch as the principal stockholders of the several companies combined became the chief stockholders of the consolidation and continued in active control of the business, the motive for inflating the stock issues of the new company did not exist in the same degree as for many similar combinations formed at about the same time. Moreover, as already intimated, the stock market in 1902 was not particularly favorable to the sale of large issues of inflated stock, as it was already beginning to feel satiated with "undigested securities," which shortly after brought about a crisis in the stock market, namely, the panic of 1903. Both of these reasons apparently had weight in inducing the International Harvester Co. to adopt a comparatively conservative policy in the capitalization of the company.

Section 3. Manner in which negotiations were conducted.

The particular manner in which the negotiations for the formation of the International Harvester Co. took place is a matter of considerable importance, and one in which the testimony of the chief representatives of this company in judicial proceedings in Missouri, already referred to, shows a marked disagreement from the information obtained by the Bureau of Corporations as to the manner in which they were actually conducted. The position taken by officers and representatives of the International Harvester Co. was that the project was first broached subsequent to June 15, 1902, and that the chief stockholders and officers of the companies merged had no conferences or understandings among themselves concerning the formation of the company prior to July 28, 1902, when the first contracts relating to the merger were signed. They asserted that all the negotiations up to the latter date were conducted by George W. Perkins, of J. P. Morgan & Co., with the representatives of the various companies separately. Mr. Perkins himself assumed practically complete responsibility for the organization of the company.

It is inconceivable that all of the principal parties concerned in the formation of the International Harvester Co. had such scanty information as to the nature of the plans before they were consummated in a single session by the contracts of July 28, 1902. Indeed, the Bureau has obtained certain evidence as to the manner in which these negotiations were conducted which clearly shows that the leading interests in the old companies had considered and discussed plans for a combination for some time. This evidence is found in a state-

¹ Cf. list of agencies of McCormick Harvesting Machine Co., Exhibit 2, p. 333.

ment obtained at the office of J. P. Morgan & Co., which was among the papers relating to the International Harvester Co. left there by Mr. Perkins after his separation from that firm. Such parts of this statement as are pertinent to the manner in which these negotiations were conducted are quoted below, and the complete statement is reprinted as Exhibit 1, page 327.

Excerpt from statement made by Mr. Stanley McCormick and Mr. Bentley to Mr. Perkins, June 27, 1902, in New York City, as revised at the office of the McCormick company in Chicago.

The McCormick and Deering people, in talking over how they might get together, estimated, in the matter of good will, that about two average years' profits ought to represent the good will of each company's business.

In negotiations not a great while ago the Deerings rather expressed the opinion that if the McCormick and Deering companies were to come together it ought to be on a basis of about 53 for the McCormick Company and 47 for the Deering, while the McCormick figures have been anywhere from 55 to 60 for the McCormick Company and 40 to 45 for the Deering Company. These figures are not as far apart as they seem to be, because the Deering people have always refused to regard the outstandings as legitimate assets of the businesses in forming a combination. Without these the percentages, according to the McCormick Company's figures, are about 55 to 45 as against the Deering's figures of 53 to 47.

Other companies:

The Deering Company is estimated to be worth \$25,000,000, including their B. R. [bills receivable].

The Massey Harris Co. of Canada-----	9, 000, 000
(This estimate was made by Mr. Swift of the McCormick Co. Mr. Middlekauff has estimated this company to be worth \$18,000,000.)	
The Champion Company (Warder. Bushnell & Glessner) of Springfield O. is estimated to be worth-----	8, 000, 000
The Plano Manufacturing Co. of Chicago-----	6, 000, 000
The Milwaukee Harvesting Company-----	4, 500, 000

The Champion company:

Mr. Glessner is president of this company. Mr. Harold McCormick saw him three or four weeks ago and sounded him as to what he would think of the several harvesting companies getting together. Mr. Glessner seemed to be very much interested in having it done and said that his company would not be particular as to details or as to what influence would predominate.

The Champion Company is a stock company and the stock is rather closely held by the gentlemen directly interested in the management of the company, with the exception of the Warder interests. Mr. Warder was the senior partner of the firm. He is now dead and Mrs. Warder lives in Washington. The Warders have no active interest in the business. It has been said that Mrs. Warder owns about one-third of the stock of the company.

Mr. Fowler had a conversation with her about a year ago, in which he got the impression that she would like to sell.

The Plano company:

Mr. W. H. Jones is president of this company and is the dominating influence. Mr. O. W. Jones, his brother, is vice president. He visited Mr. McCormick about four weeks ago and in a casual way asked if something could not be done in the way of a combination. He remarked: "If you and I were appointed a committee of two to put this through it wouldn't take us a week to wind it up," giving the impression that he was anxious to see it put through. This Mr. Jones takes rather a pessimistic view of the trade. He thinks that prices will have to be reduced considerably. He thinks, for instance, that a machine now selling to the trade for \$100 will soon have to be sold for \$75. At one time he expressed himself as entirely friendly to control by the McCormicks. He also thought the smaller companies like the Plano company would stand a better show in the case of strenuous competition than the larger companies, because of smaller charges in the way of organization.

General:

Mr. Deering has approached both the Plano and Champion companies, but so far as is known he has no option on either one.

Mr. Deering has claimed that the McCormicks have conducted their collection department in too liberal a manner.

* * * * *

Mr. Deering may oppose the kind of organization the McCormick Company has, which develops the strength and capability of important men and places responsibility upon them. His plan has always been to keep the lines in his own hands and then play off one man against another. This plan has produced much jealousy and friction in the Deering Company.

Mr. Deering's relations with Judge Gary are very close, but they are of such a nature that you would get a great deal more help if Judge Gary came to you with a proposition than if you got at Deering through Judge Gary. Judge Gary has far more influence over Deering than anyone else. Mr. Deering usually has some scheme up his sleeve. For instance, he very likely might already be negotiating to get hold of the Warder interests and might be planning to do the same with regard to the other companies.

The men who represent the elder Mr. Deering, who has retired from the business, are Mr. Charles Deering and Mr. James Deering, his oldest and youngest sons, and Mr. Richard Howe, his son-in-law. These three younger men constitute the present co-partnership. Mr. William Deering, however, keeps in close touch with the main matters of the business.

The thing that would prevent an excessive demand on Mr. Deering's part would be the fact that he asked for only two average years' profits as the measure of good will of his company. The demand for control of any new company by the McCormicks has been the chief obstacle met in these negotiations with Deering.

The Deerings have indicated that they would prefer not to sell for cash, but would take securities and keep an interest in the management of the new organization.

Mr. Deering has urged that the whole trade be taken into the combination. Against this it has been suggested to him that if only 90 per cent were brought in it would be quite possible to deal with another of the minor companies if any one made excessive demands; that is, no minor company is probably essential to the combination, although the five named are undoubtedly the most desirable.¹

The following facts seem to be well established by the foregoing statement:

1. The McCormick, Deering, Champion, and Plano interests had been in direct negotiations concerning a consolidation prior to the middle of June, 1902.

2. The question whether the McCormicks should control the proposed company had been under discussion, and Glessner and Jones were not opposed to it.

3. Jones is reported to have said that if the combination were not formed, the small companies would be able to meet the competition of the McCormick and Deering companies; and that the price of binders would have to be reduced from \$100 to \$75.

4. Deering had urged that the whole trade should be taken into the "combination."

5. The proposed consolidation was to include five companies, i. e., the McCormick, Deering, Champion, and Plano companies, and presumably the Milwaukee company as the fifth, as that is the only other domestic company specifically mentioned in the statement, and was one of those actually included.

6. It was expected that the proposed consolidation would embrace 90 per cent of the trade in harvesting machines at the outset, and that it would be easier to get additional minor harvester companies afterwards under favorable terms if they were wanted, though such companies would not be "essential to the combination."

Again, the record in the present Government suit shows that the McCormick interests cooperated with the bankers in securing the

¹ In connection with the foregoing statement of Stanley McCormick and Cyrus Bentley to G. W. Perkins of June 27, 1902, it may be noted that a letter was found among the papers in J. P. Morgan & Co.'s office written by Stanley McCormick to G. W. Perkins, from which the following excerpts are made:

JULY 3, 1902.

MY DEAR MA. PERKINS:

I acknowledge favor of the 28th ult., inclosing a copy of the notes of our conversation of June 27th; and also, a list of statements desired by you. * * *

The statement giving the details of the negotiations with the Messrs. D's will be forwarded later. * * *

Yours very truly,

(Signed)

STANLEY MCCORMICK.

GEORGE W. PERKINS, Esq.,

% J. P. Morgan & Co.,

Wall St., cor. Broad, New York, City.

Milwaukee Harvester Co. It appears that the option on this Milwaukee concern was obtained on June 24, 1902, from Stephen Bull and his associates by P. D. Middlekauff, who was furnished \$100,000 for this purpose by the McCormick Harvesting Machine Co. Following is a letter from H. F. McCormick to Mr. Middlekauff, and also one from C. H. McCormick to George W. Perkins introducing Mr. Middlekauff:

CHICAGO, JUNE 25, 1902.

Mr. P. D. MIDDLEKAUFF.

DEAR SIR: We authorize you to assign to J. P. Morgan & Co., or to any person whom they may designate, the option you obtained from the Milwaukee Harvester Co. for us. We will see that you incur no damage on account of such action.

HAROLD F. MCCORMICK,
Vice President.

On the back in pencil:

Explain failure to get 90 days and explain terms. Go to J. P. Morgan & Co. office at 10 o'clock Friday A. M., leave letter and package at W. A. [Waldorf-Astoria] on arrival in city. See that it is put in hands of reliable party in office, but do not see Mr. Stanley [Stanley McCormick]. Give Mr. Perkins all the information asked for that you would give us. Make no deal for any position at this meeting. Put yourself under Mr. Perkins' orders, either to stay in New York or to return here. When will expert start on books? Who shall he be? Shall we manage that—through you—or otherwise? Be on guard regarding Judge Gary. He may be on train.

JUNE 25, 1902.

DEAR MR. PERKINS: It gives me pleasure to introduce to you Mr. P. D. Middlekauff, who will make a full explanation to you regarding the Milwaukee option.

Any wishes you may have as to this matter Mr. M. will be glad to conform to.

I am, very sincerely yours,

CYRUS H. MCCORMICK.

GEO. W. PERKINS, Esq.

A representative of the McCormick interests stated to the Bureau that in arranging for the option on the Milwaukee concern they were acting for the bankers. However, the important fact here is that the acquisition of that concern was arranged with the joint knowledge and, indeed, the cooperation of the two interests.

Section 4. Legal and financial details of organization.

On July 28, 1902, the preliminary terms of the merger having been settled, the principal parties were brought together in New York at the offices of the law firm of Guthrie, Cravath & Henderson, acting for J. P. Morgan & Co., and four separate original agreements providing for the merger were then and there duly executed by the representatives of the McCormick, Deering, Plano, and Champion com-

panies,¹ respectively, and William C. Lane, the go-between or agent of J. P. Morgan & Co. Each of them shows that a combination of harvesting-machine manufacturers was intended and that the stockholders of the companies whose properties were to be merged were to become stockholders in the consolidation.

The process by which the merger was accomplished involved a good many formal legal transactions, including several agreements subsequent to those of July 28, 1902. The essential features of the plan as evolved were that the McCormick, Deering, Champion, and Plano companies should convey their plants and other physical properties to a new company in exchange for stock, and in addition should subscribe to large additional amounts of stock in cash, such subscription being allowed and made to a large extent in the form of assigned guaranteed bills receivable. For the plants and physical property thus conveyed, together with the entire property of the Milwaukee company, which was put in by the bankers as a going concern, and also for the payment of the bankers' services and expenses, \$60,000,000 in stock was to be issued. Working capital to the amount of \$60,000,000 was to be subscribed in cash partly by the four manufacturing interests going into the consolidation, namely, in the amount of \$41,000,000, and the remaining \$19,000,000 by the bankers and their associates. As a matter of fact, about half of this latter amount also was subscribed by certain of the manufacturing interests entering the combination. The transactions by which the consolidation was accomplished may be divided into five groups: (1) Agreements by which four of the vendor companies to be consolidated sold their plants and their physical property to one W. C. Lane, the intermediary in this affair, and undertook certain obligations with respect to the subscription of working capital, subject to the performance of certain promises in regard to the formation of the new company; (2) organization of the International Harvester Co. by a group of "dummy" or temporary incorporators and sale by Lane of the properties above mentioned, and subscription contracts for cash capital, and also the Milwaukee concern to the International Harvester Co. in exchange for all its stock; (3) entrance of the original stockholders or owners of the vendor companies and their associates into the control of the International Harvester Co. as holders of the capital stock which they had acquired in the meantime from Lane; (4) execution of voting-trust agreement; and (5) execution of certain supplemental agreements in order to carry out better the original intentions of the several parties.

In this roundabout way the original companies conveyed their several properties to a single new company, and their stockholders,

¹ For the McCormick company, Cyrus H. McCormick and Harold F. McCormick; for the Deering company, Charles Deering, James Deering, and Richard F. Howe; for the Champion company, J. J. Glessner and G. B. Glessner; and for the Plano company, William H. Jones, O. W. Jones, S. J. Llewellyn, and Archer Brown.

together with other subscribers to the working capital provided for, became the owners of all the capital stock of the new company. Each of these steps will now be considered in more detail.

ORIGINAL AGREEMENTS BETWEEN VENDOR COMPANIES AND LANE.—On July 28, 1902, four separate agreements were entered into between the McCormick, Deering, Plano, and Warder, Bushnell & Glessner companies, respectively, called the "vendors," and William C. Lane, called the "purchaser," in substantially the same general form, but differing in certain details. A brief description of the principal features of the contract between the McCormick company and Lane is given below, together with a statement of the principal points of difference in the other contracts.¹

The contract between the McCormick company and Lane set forth that the McCormick company, called the "vendor," was the owner of certain plants for the manufacture of harvesting machines, and that Lane, called the "purchaser," desired to acquire them for the purpose of selling them to a company to be subsequently formed, which was called the "purchasing company." The vendor agreed to convey such plants and certain movable property as a going concern, and also guaranteed bills and accounts receivable, or cash, to the amount of \$20,000,000. It provided that the purchase price should equal the appraised value of tangible property, plus receivables and cash, if any, and should be payable in shares of stock of the purchasing company at par. Detailed provisions were made for the appraisal of the plant and other property than receivables so conveyed, including the good will, the latter to be valued at the aggregate profit for two years preceding plus 10 per cent.²

The purchaser agreed that a purchasing company should be organized in a manner approved by J. P. Morgan & Co., and should have a working capital, in addition to inventories conveyed, of \$60,000,000, represented by cash or receivables. The capital stock was to be determined by J. P. Morgan & Co. after appraisal, but if one class of stock was issued, it should not exceed \$120,000,000; if both preferred and common stock should be issued the preferred stock should not exceed \$120,000,000, and the vendor should have the same proportion of common as of preferred.

The vendor agreed that it, or the persons who should receive the stock allotted to it, should deposit such stock with a voting trust, which should consist of J. P. Morgan or G. W. Perkins and two other persons, to be appointed by J. P. Morgan & Co.

¹ Cf. Exhibit 3, p. 342.

² A special feature of the appraisal provisions was that for certain specified properties the value should be fixed by J. P. Morgan or G. W. Perkins. This provision related to the industrial railroad of the McCormick company, the iron, coal, and steel properties (including ore) of the Deering company, and the interests in the industrial railroad and malleable plant of the Plano company.

The corresponding contracts made between the other vendor companies and Lane were similar to that just described, except with respect to the amounts to be furnished in receivables and cash; in the case of the Deering company, the amount stipulated was \$16,000,000; for the Plano company, \$4,000,000; and for the Warder, Bushnell & Glessner Co., \$1,000,000.

Supplemental contracts, similar to each other, were entered into between the same parties on August 11, 1902, of which the principal provisions in each case were as follows: The conveyance of the property referred to in the contract of July 28, 1902, should be made at once without awaiting the completion of the appraisal; also the assignment and transfer of the accounts and bills receivable (subject to option to substitute cash). In the case of the Champion company, however, it was stipulated that the \$1,000,000 subscription for working capital should be made in cash. The capital stock of the purchasing company was fixed at \$120,000,000. The shares of stock should not be issued to an amount exceeding 62½ per cent of the appraisal before January 1, 1903, and subject to this condition J. P. Morgan & Co. might issue such stock as they thought proper before the full appraisal was completed.¹

On August 12, 1902, the McCormick and Deering interests agreed to a written proposition from J. P. Morgan & Co. to take about \$9,000,000 additional stock, payable in cash or guaranteed receivables, the subscription of each interest to be in proportion to their original subscription for working capital, and the exact amounts to be fixed later. (See p. 84.)

ORGANIZATION OF THE INTERNATIONAL HARVESTER Co.—At this stage of the proceedings the International Harvester Co. was organized by a group of dummy incorporators. The certificate of incorporation was filed in New Jersey on August 12, 1902. Besides the usual formalities this certificate stated that the objects for which the company was formed were to engage in the manufacture and sale of all kinds of agricultural machines and implements, and repair parts and materials used in making them, etc.; also to acquire patents, trade-marks, etc. The capital stock authorized was \$120,000,000, of which \$60,000 was subscribed by the incorporators. The first meeting of this company was held on August 12, 1902, at the principal office of the company in Hoboken, N. J. Various formalities of organization were completed, including the election of certain of the incorporators as officers and directors of the company. Immediately after these formalities the board of directors took under consideration an offer from W. C. Lane, made in writing, substantially to the following effect:² Lane offered to sell, first, the plants, good will, and other property, excluding receivables, of the

¹ Cf. Exhibit 4, p. 349.

² See Exhibit 5, p. 351.

McCormick, Deering, Plano, and Warder, Bushnell & Glessner Cos., together with the Milwaukee Co., which was sold as a going concern, with all liabilities and assets—these being valued at \$132,000,000; second, working capital of \$60,000,000, represented by cash or by bills and accounts receivable of the first three companies mentioned, at the option of the vendor, valued at \$60,000,000. In payment therefor Lane offered to accept the entire capital stock of the International Harvester Co., namely, \$120,000,000 par value, with a provision that if any additional stock were issued by the company prior to July 1, 1903, on account of the surplus of \$60,000,000,¹ so created, then the original \$120,000,000 stock should become preferred stock and the additional stock issued should be common stock and be issued to the holders of the preferred stock in proportion to their holdings.

A committee of directors of the newly formed International Harvester Co. was appointed to consider this offer and report on the following day (Aug. 13, 1902).

On August 13, 1902, a second meeting of the board of directors of the International Harvester Co. was held at 40 Wall Street, New York City, and W. C. Lane and E. H. Gary (chairman of the executive committee of the United States Steel Corporation) appeared and explained Lane's offer to the said board. The committee appointed to consider the offer made a report substantially as follows:² First, that the properties of the five companies "are the most important in their line of business in the United States, and that each of them have for several years enjoyed a prosperous, profitable, and growing business." Second, "that the properties offered by Mr. Lane are, in their opinion, worth to this company the sum of \$132,000,000, the price mentioned in Mr. Lane's offer, and they recommend their acquisition by the company, together with the \$60,000,000 of working capital, at the aggregate price of \$192,000,000, payable upon the issue of \$120,000,000 of the company's capital stock."

The board of directors, after discussing this report of the committee, adopted formal resolutions³ to the effect that these properties and the working capital offered by Lane were "necessary and desirable for the business and purposes of this company" and were worth the amount stated by Lane, and that Lane be paid therefor in the total capital stock of the company, less the amount subscribed by the incorporators (namely, \$120,000,000 less \$60,000, or \$119,940,000 par value). It was resolved, further, that the treasurer should enter the proper amounts in the books of account, including the surplus of \$72,000,000.

A comparison of the terms of the original contracts between the vendors and Lane makes it quite evident that these amounts were

¹ So in the printed copy; should be \$72,000,000.

² See Exhibit 6, p. 352.

³ See Exhibit 7, p. 353.

purely fictitious and that the surplus of \$72,000,000 was wholly imaginary. But these details are of considerable importance to a correct understanding of the final settlement of the capitalization of the company. Apparently it was not definitely settled at first whether or not the company should be organized on a basis of a gross inflation of stock issues.

This proposal of Lane's was accepted, therefore, and according to the terms of Lane's contracts with the vendors he transferred the capital stock of the International Harvester Co. to the voting trustees.

ENTRANCE OF ORIGINAL PROPRIETORS OF THE MERGED COMPANIES INTO CONTROL.—The day after the International Harvester Co. was organized, and on the same day that it acquired the properties of the merged companies described above, namely, August 13, 1902, the new stockholders took control of the company. The temporary directors resigned and the new stockholders elected the following directors in place of them:

Cyrus H. McCormick.
Charles Steele.
Charles Deering.
Norman B. Ream.
William Deering.
George F. Baker.
Harold F. McCormick.
William H. Jones.
John J. Glessner.

George W. Perkins.
Leslie D. Ward.
James Deering.
Elbert H. Gary.
Stanley McCormick.
Richard F. Howe.
Cyrus Bentley.
Paul D. Cravath.
Eldridge M. Fowler.

Of these 18 directors, 10 were largely interested in the 4 companies merged, namely: The three McCormicks and Fowler, of the McCormick Co.; the three Deerings and Richard F. Howe, of the Deering Co.; Jones, of the Plano Co.; J. J. Glessner, of the Warder, Bushnell & Glessner Co. Three more directors, namely: Gary, Bentley, and Cravath, had been connected with such concerns or individuals as counsel. Four of these directors either represented the bankers, J. P. Morgan & Co., or were men who subscribed cash for the working capital of the companies, namely, Steele and Perkins, of J. P. Morgan & Co., and Baker and Ream, who were New York financiers. Ward, the only remaining director, was put in to comply with the corporation laws of New Jersey requiring a resident director.

On the same day the temporary officers of the company resigned and the principal officers elected in their places were as follows: Cyrus H. McCormick, president; James Deering, Harold F. McCormick, W. H. Jones, and J. J. Glessner, vice presidents; Richard F. Howe, secretary and treasurer. An executive committee was

elected, including the principal representatives of four of the companies merged, and also G. W. Perkins. Charles Deering was elected chairman of this committee. A finance committee was also elected, of which G. W. Perkins was made chairman.

With the conclusion of these transactions the plan of the merger was practically effected.

EXECUTION OF VOTING-TRUST AGREEMENT.—The next step in carrying out the original contracts of July 28, 1902, with the principal companies entering the merger, namely, the establishment of a voting trust, was made by execution of the voting-trust agreement and the appointment of the following persons as members of the voting trust, namely, George W. Perkins, Charles Deering, and Cyrus H. McCormick. In fulfillment of this part of the original agreements, a contract¹ was made on August 13, 1902, between W. C. Lane and the above-named voting trustees, wherein it appears that Lane delivered the total capital stock (except shares necessary to qualify directors) to the voting trustees, while the voting trustees on their part agreed to the provisions established for the voting trust and to the issue of voting-trust certificates to the beneficial owners of the stock of the International Harvester Co. Another important feature of this agreement, which should be noted here, was the provision, substantially, to the effect that of the three voting trustees, one should represent the McCormick interests and another the Deering interests. The voting trust was established for five years, namely, until August 1, 1907, with a stipulation for its continuance until August 1, 1912, unless a majority of the board of directors decided to terminate it at an earlier date.

SUPPLEMENTARY CONTRACTS OF MARCH 24, 1903, AND AUGUST 17, 1903.—Subsequent to the formation of the International Harvester Co. certain contracts were made between the vendors, respectively, and W. C. Lane, modifying the contracts of July 28, 1902, and August 11, 1902.

The first set of these contracts referred to the methods of appraising the properties conveyed under the original contracts, and were dated March 24, 1903.² Each of these provided, substantially, that if the appraisal of the property conveyed by the vendors should in the aggregate exceed \$53,000,000, then there should be an additional issue of preferred stock equal to such excess, and that the vendor in each case should receive an allotment of stock equal to the amount shown by the appraisal. These contracts apparently were intended to make provision for an oversight in the original contracts of August 11, 1902, which limited the total issue of capital stock to \$120,000,000. If the appraisal of the property of the four vendor companies equaled

¹ See Exhibit 8, p. 355.

² Cf. Exhibit 9, p. 360.

\$60,000,000, then, on the basis of the capitalization established, nothing would have been left for the bankers and promoters, either for the Milwaukee Harvester Co. or for their services. If the appraisals exceeded \$60,000,000, there would not have been enough stock to cover at par the cash subscription. These contracts furnish, therefore, some internal evidence that there were no collusive proceedings by the promoters to secure an overvaluation of the properties purchased; but they do not show, of course, that the appraisals which were made were reasonable or correct.

The appraisals as they were being made showed, apparently, that the amount of \$60,000,000 would be considerably exceeded, and there is again internal evidence to show that these appraisals were recognized by the promoters of the merger as being excessively high. Such a situation would of course be very disadvantageous to the outside financial interests who furnished cash for stocks at par. Consequently on August 15, 1903, G. W. Perkins made an award which practically settled the distribution of the plant stock, and still further modifications of the contracts between the vendors and W. C. Lane were found to be necessary. These were effected in a contract dated August 17, 1903.¹ It was agreed in this contract between the vendors jointly and W. C. Lane that certain specified amounts of stock should be allotted to each of the vendor companies for the property conveyed in lieu of the amounts to be determined by appraisal. The amounts agreed on were as follows:

McCormick company -----	\$26,321,656.86
Deering company -----	21,362,554.64
Warder, Bushnell & Glessner company -----	3,372,185.91
Plano company -----	2,193,603.09

These amounts were agreed to subject to certain minor modifications not then determined. It was provided that the Plano company was to receive \$100,000 additional in cash. All the obligations of the vendors in connection with the property transferred (amounting to about \$900,000) were to be assumed by the International Harvester Co. This contract provided, further, that the International Harvester Co. should assume all obligations of W. C. Lane.

SUMMARY AND CRITICISM OF CONTRACTS WITH RESPECT TO CAPITALIZATION.—The fact that the promoters of this company were uncertain as to what amount of capital stock the company should have is explained apparently by two facts: First, they were uncertain how much real tangible value there was in the properties merged; second, they were undecided at first as to whether they would capitalize the company at the actual value of such property or at a greater value.

The company was organized on the basis of \$120,000,000 capital stock. Hence, when the appraisals showed that the total value so

¹ See Exhibit 11, p. 363.

arrived at would leave little or nothing to the bankers for their contribution, namely, the Milwaukee Harvester Co., or for their services, or perhaps even exceed \$60,000,000, in which case there would not be enough stock for those who subscribed cash capital, it was evidently necessary to provide for additional stock, or to adopt some other means of allotting it than the appraisal value of the property. The fact that the contract of March 24, 1903, provided for additional issue if the appraisal exceeded \$53,000,000 shows that the promoters had decided that they must get about \$7,000,000 for the Milwaukee company and their own services and expenses. It also indicates, perhaps, that they did not think an appraisal ought to exceed \$53,000,000. The contracts of March 17, 1903, were defective, however, in still leaving open the possibility of overappraisal and therefore the issue of stock on inflated valuations for the properties conveyed. This would, of course, be prejudicial to the outside financial interests which subscribed cash for their stock. Hence, as a final settlement, the contracts of August 17, 1903, provided that the total amount to be allotted for the property of the four predecessor companies, so acquired, was limited to an amount originally stated tentatively at \$53,250,000.50, but finally made \$53,292,857.64. The several interests which got the stock apparently came to an agreement on this amount. Hence the elaborate appraisals made of the property never really controlled the question of capitalization. Subsequently, however, when they were completed, they were used in part for bookkeeping purposes.

Section 5. Allotment of \$120,000,000 of stock issued.

From the description given above of the various agreements by which the International Harvester Co. was formed, the method of allotting the stock is shown in a broad way. The exact items are not shown, however, either for the "plant" stock or for "cash" stock. In particular, the amounts allotted to the bankers for their services and expenses and for the Milwaukee company's business are not shown, even in round figures. Before coming to a final statement of the matter certain additional features of the arrangement not described above should be mentioned.

The "cash" stock which the McCormick and Deering interests agreed to take in addition to their original contributions of \$20,000,000 and \$16,000,000, respectively, as finally determined, amounted to \$4,886,190.13 and \$3,965,613.21, respectively. It appears, therefore, that outside financial interests, including the bankers, subscribed only about \$10,000,000 to the total capital stock of the company. It is possible that the determination finally arrived at to keep down the capital stock to something approaching the value of the assets acquired made participation in this enterprise less attractive than was first expected to outside financial interests.

An outside arrangement was made between J. P. Morgan & Co. and the McCormick and Deering interests to give to the Champion and Plano interests in equal shares the amount of \$150,000 of the "plant" stock, this obligation being assumed in the following amounts:

J. P. Morgan & Co.-----	\$42,857.14
McCormick interests-----	59,142.86
Deering interests-----	48,000.00

The commission of J. P. Morgan & Co. was fixed apparently at \$3,000,000 in stock, according to the contract between the said firm and William C. Lane, of August 13, 1902.¹ This was regarded as payable out of the "plant" stock. To get the net commission for J. P. Morgan & Co., however, it is necessary to deduct the contribution mentioned above, \$42,857.14, made to the Champion and Plano interests by J. P. Morgan & Co. The net commission, therefore, was \$2,957,142.86.

For the Milwaukee company, which was put into the combination as a going concern, the bankers were to receive "plant" stock equal to the net assets. It was expected that this would be about \$3,000,000. After the "plant" stock had been allotted to the other companies and provision made therefrom for the bankers' commission and expenses, there remained just \$3,000,000 for the Milwaukee company. The Milwaukee appraisal, however, as finally determined, showed a valuation of \$3,148,196.66, so that it became necessary to pay the difference, namely, \$148,196.66, out of the "cash" stock.

Account must also be taken of the \$60,000 stock subscription of the original incorporators, which was not transferred to William C. Lane when the rest of the capital stock of the company was conveyed to him, as described above (p. 80). It is stated that the money for this \$60,000 stock subscription of the incorporators was provided by J. P. Morgan & Co. and the stock turned over to them later. J. P. Morgan & Co., however, did not acquire and distribute this stock as trustees. In the following statement it is reckoned as a part of the cash stock subscription, although the 600 shares thus subscribed to by the original incorporators were repurchased from them through the expense fund.

With these explanations the following statement of the allotment of stock will be intelligible. This is based substantially on a statement found in the office of J. P. Morgan & Co., described as follows: "International Harvester Co.—Statement of distribution of stock under final settlement, revised January 15, 1904, to provide for the 600 shares of stock taken by incorporators."²

¹ See Exhibit 10, p. 362.

² Subsequently about \$103,000 of expense stock was distributed among the four vendor companies.

TABLE 6.—DISPOSITION OF ORIGINAL \$120,000,000 CAPITAL STOCK OF INTERNATIONAL HARVESTER CO.

PLANT STOCK.		
J. P. Morgan & Co.:		
Commission	\$3, 000, 000. 00	
Less contribution to Champion and Plano companies	42, 857. 14	
	<u>2, 957, 142. 86</u>	
Milwaukee Harvester Co.	3, 000, 000. 00	
		<u>\$5, 957, 142. 86</u>
McCormick interests:		
Original allotment	26, 321, 656. 86	
Less contribution to Champion and Plano companies	59, 142. 86	
	<u>26, 262, 514. 00</u>	
Deering interests:		
Original allotment	21, 362, 554. 64	
Less contribution to Champion and Plano companies	48, 000. 00	
	<u>21, 314, 554. 64</u>	
Plano interests:		
Original allotment	2, 193, 603. 09	
Plus contributions from other interests	75, 000. 00	
	<u>2, 268, 603. 09</u>	
Champion interests:		
Original allotment	3, 372, 185. 91	
Plus contributions from other interests	75, 000. 00	
	<u>3, 447, 185. 91</u>	
Organization expenses (excluding Milwaukee company and incorporators' stock):		
Sold	611, 803. 34	
On hand	138, 196. 16	
	<u>749, 999. 50</u>	
		<u>60, 000, 000. 00</u>

CASH STOCK.		
J. P. Morgan & Co.:		
Cash	9, 940, 000. 00	
Incorporators	60, 000. 00	
Milwaukee excess	148, 196. 66	
	<u>10, 148, 196. 66</u>	
McCormick interests:		
Original subscription	20, 000, 000. 00	
Subsequent subscription	4, 886, 190. 13	
	<u>24, 886, 190. 13</u>	
Deering interests:		
Original subscription	16, 000, 000. 00	
Subsequent subscription	3, 965, 613. 21	
	<u>19, 965, 613. 21</u>	
Plano interests	4, 000, 000. 00	
Champion interests	1, 000, 000. 00	
	<u>60, 000, 000. 00</u>	

Of the \$120,000,000 capital stock of the International Harvester Co., \$103,144,660.98, or 86 per cent was received by the McCormick,

Deering, Champion, and Plano interests. The McCormick interests received \$51,148,704.13, or 42.6 per cent, and the Deering interests \$41,280,167.85, or 34.4 per cent. Together, the McCormick and Deering interests received 77 per cent of the total capital stock.

The voting trust technically gave to the McCormick, Deering, and J. P. Morgan & Co. interests equal voice in the management of the company, but the predominating influence in practice appears to have been the McCormick interests. Without the voting trust, the McCormick interests apparently would have had a working control of the company.

Section 6. Description of the organization of the International Harvester Co. and the property acquired in 1902.

The International Harvester Co. became the owner of the plants and other physical assets of the McCormick, Deering, Champion, Plano, and Milwaukee companies through the transactions described above, but it did not acquire therewith the capital stock of the McCormick, Champion, Plano, or Milwaukee companies, which, together with the Deering partnership, were continued as nominal organizations. However, a few weeks after the merger was consummated the capital stock of the Milwaukee company was acquired, and with it the control of that corporation and its charter. The property of this company had already been conveyed, as stated above, to the International Harvester Co.

Several of the companies whose properties were merged had, through full or partial stock ownership, the control of certain comparatively unimportant subsidiary companies, which also came into the control of the International Harvester Co. Among these were the Illinois Northern Railway Co. and the Chicago, West Pullman & Southern Railway Co., industrial railroads, respectively, of the McCormick and Plano plants in Chicago; the South Chicago Furnace Co., a Deering property; the McCormick Harvesting Machine Co. m. b. H., of Berlin, which was a McCormick marketing company in Germany; and the Compañía Industrial de Baja California, a fiber ranch property of the McCormick company in Lower California, in Mexico.

ORGANIZATION OF THE MANUFACTURING BRANCH OF THE BUSINESS AND DESCRIPTION OF THE PROPERTY.—The International Harvester Co. became the owner of the manufacturing property acquired and sole manufacturer of the various lines of harvesting machines which were brought into the merger. At the beginning, however, namely, by a resolution of the board of directors of August 13, 1902, each of the manufacturing plants of the four original vendor companies, namely, the McCormick, Deering, Plano, and Warder, Bushnell & Glessner companies, were made separate divisions, and so far as the manufacturing operations were concerned were conducted for a short time very largely as independent units. Harold F. McCormick was put in

charge of the McCormick plant, Richard F. Howe of the Deering plant, W. H. Jones of the Plano plant, and J. J. Glessner of the Champion plant (Warder, Bushnell & Glessner plant). The Milwaukee plant apparently was not then expressly established as a separate division. The purpose of this arrangement is not clear, but may have been to keep the accounts of the business acquired from the several predecessor companies as distinct as possible until all questions involved in the scheme of the merger were settled, and particularly the appraisals. On the other hand, there may have been some question as to the permanency of the merger and a desire to facilitate its disintegration if such a proceeding were subsequently found to be necessary or desirable.

All five of the plants which were merged into the International Harvester Co. made harvesting machines, while two of them, namely, the McCormick and Deering plants, also made binder twine. The properties of the McCormick, Deering, and Plano concerns, which were conveyed to the International Harvester Co., included some additional plants and property. The McCormick property included certain timber rights and also a fiber ranch in Mexico. The McCormick timber property was of small importance, and the fiber ranch was of no practical value at all. The property acquired from the Deering concern, however, included raw-material plants, and other property of considerable importance. In the first place, there was a small blast-furnace plant and a small rolling mill in Chicago, together with an additional plant in the course of construction. Secondly, there were two iron-ore leases in the Mesabi Range, some undeveloped coking-coal lands in Kentucky, and timber property in the South, particularly in Missouri. The Plano property included an interest in a small iron works, the Chicago Malleable Castings Co. Two of the implement plants acquired, namely, the McCormick and Plano, had industrial railroads connecting them with the chief railroad lines terminating in Chicago. Another important class of fixed property acquired through the four vendor companies consisted of real estate, buildings, etc., used for general agencies and warehouses, most of which was transferred to the International Harvester Co. of America, which is described in the following paragraphs.

ORGANIZATION OF A SELLING COMPANY.—Although the Milwaukee company's charter was obtained through the subsequent acquisition of its capital stock, as already stated, it was not used for the purpose of manufacturing. The capital stock of this company was acquired by George W. Perkins or J. P. Morgan & Co. shortly before the merger, and the property of the company was conveyed to W. C. Lane. On September 5, 1902, the name of this company was changed to the International Harvester Co. of America (hereafter generally called the America company), and on September 18, 1902, new articles of association were adopted. About September 30 the whole amount

of the capital stock (exclusive of nine directors' shares) was acquired by the International Harvester Co. in the interest of the stockholders of the said company as a class.

The acquisition of the Milwaukee company as a corporate entity was a very important feature in the organization of the International Harvester Co. The purpose was to use it as a selling organization for the International Harvester Co. As already explained (see p. 55), under the conditions prevailing in the harvesting-machine trade it was necessary for the manufacturers to have general agencies and warehouses near the chief agricultural sections of the country. The laws of the several States, while generally admitting foreign corporations to do business therein, often established rules regarding the obtaining of licenses, and also subjected such foreign corporations to taxation on their business. Sometimes these laws (e. g., in Missouri) were very stringent in their prohibitions to granting licenses to "trusts" or other combinations in restraint of trade.

The International Harvester Co., being a newly organized company, was not in a position to do business immediately in many States for the lack of such licenses, and to get them would involve some delay. Moreover, it was quite possible that difficulties may have been anticipated in getting such licenses in some cases on account of the anti-trust laws just referred to. Furthermore, the International Harvester Co. was capitalized at a very large amount, and under the tax laws of some States this would subject the company doing business therein to higher taxation than for a company of small capital. Hence, on commercial, legal, and financial grounds there were considerable advantages in transferring the sale of the products of the International Harvester Co. to a distinct selling company which already had licenses to do business in the several States. The Milwaukee company apparently met all these conditions satisfactorily; at any rate, it was acquired and used for this purpose.¹

¹ Cyrus H. McCormick, in his testimony in the Missouri case, stated that this use of the Milwaukee company was an afterthought, and that the motive in using it was that that company already had licenses to do business in many States, while to get licenses for a new company will involve difficulties and considerable delay:

Q. The suggestion to use the Milwaukee company was not the original suggestion, that was an afterthought?—A. The first idea was as I said this morning, was to form a new company, either in Illinois or New York, but the time required to form that company and the details to go through impressed the lawyers that the autumn was passing away, and it was necessary that something should be done soon, and one of the greatest obstructions was that in some of the States, as the answer shows, that it could not do business in some States, but the Milwaukee company was qualified to do business in nearly all of the States.

Q. It was your idea that the Milwaukee company was to be used as a medium to do business in the States where your company was prohibited?—A. It was the idea for the Milwaukee company to be the company to do business, and it was qualified where others were not qualified.

Q. It would be in some States where your company could not get in?—A. Yes, sir; for instance, Missouri. We could not get in at all.

Q. It was the idea to have your new company to own all the stock and do the business for the Milwaukee company?—A. Yes, sir; in Colorado it was very difficult to get in and get a license, but the fact that the Milwaukee company was ready to do business, was the chief factor that decided that at the last moment in taking that company for the selling company.

Q. That and the other consideration that your new company could not get into some States?—A. Yes, sir.

The International Harvester Co., therefore, conveyed to the America company (formerly the Milwaukee company) practically all its warehouses and other facilities for the sale of harvesting machinery, and this company was thenceforth the selling agency of the combination for harvesting machines, twine, and similar products. As the International held substantially all the stock of the America company the interests of the two companies were practically identical. At the beginning, and indeed down to 1910, the America company's directors were all directors in the International Harvester Co., while its principal officers held the corresponding offices in the New Jersey company. The officers of the America company in 1902, were as follows:

Cyrus H. McCormick, president; H. F. McCormick, vice president; James Deering, vice president; J. J. Glessner, vice president; W. H. Jones, vice president; R. F. Howe, secretary and treasurer; Charles Deering, chairman of executive committee; G. W. Perkins, chairman of finance committee.

All of these, and Stanley McCormick also, were directors in the company.

As shown already (p. 81), the New Jersey company had all these names on its board of directors and nine others in addition. Although in a formal legal sense these two companies were made independent and made contracts of purchase and sale with each other, the America company was obviously a mere alter ego of the International Harvester Co.¹

The America company in buying the products of the International Harvester Co., conducted negotiations as to the quantity and prices on the basis of a contract which was intended to leave practically no margin of profit to the America company. The first contract was made on September 2, 1902, with the Milwaukee Harvester Co., this being before that company had changed its name to the International Harvester Co. of America. As first drafted, this provided that the profits of the Milwaukee company in excess of \$250,000 should be paid over to the International Harvester Co., and that the International Harvester Co. should guarantee to the Milwaukee company a minimum profit of \$100,000. The International Harvester Co., moreover, was to furnish the Milwaukee company requisite working capital, on which interest should be paid at 4 per cent.

¹ The board of directors of the America company, in 1910, was changed by replacing all those directors who were directors in the International Harvester Co. (except one) with directors chosen from the executive officials of these two companies, namely, E. A. Bancroft, William Browning, C. S. Funk, C. H. Haney, R. C. Haskins, C. H. Laufman, Alex. Legge, W. R. Morgan, and W. M. Reay. R. C. Haskins was elected president at a meeting of this board on Apr. 16, 1910.

It is not clear, however, that this proposed agreement was ever executed, but another agreement of the same date was made which provided that the Milwaukee company should take over the products of the International Harvester Co. for sale in the United States or elsewhere, on the basis of a schedule of prices, and should change its name to the International Harvester Co. of America. This contract was to continue in force from year to year unless terminated by either party at the end of the business year (October 1). The practical result of this arrangement was to leave little or no profit to the America company. Consequently, the America company was unable to accumulate any considerable surplus or to pay any dividends. The particular terms of the sales contracts between the America company and the International Harvester Co. were negotiated from time to time as necessary by subordinate officers of each company, and the final agreement was authorized and sanctioned by Cyrus H. McCormick, who was the president of each of the two companies.¹

Section 7. Production of chief kinds of harvesting machines by the International Harvester Co. in 1902.

The chief business of the companies which originally went into the International Harvester Co. was the manufacture of harvesting machines. The only other important product was binder twine, which was produced by the McCormick and Deering companies only. The production of harvesting machines for the year 1902 for each of the five companies originally merged into the International Harvester Co. is shown in the table following.

¹ The above facts are clearly brought out in the following testimony of Cyrus H. McCormick in the Missouri case :

Q. Who are the men who decide for the International of America what machines they shall buy from the International of New Jersey?—A. The directors and Mr. Mayer as the head of the sales department for the America company.

Q. That is, he furnishes the directors the amount they can probably sell?—A. Yes, sir.

Q. And the International of America take up with the International of New Jersey the purchasing of these machines?—A. Yes, sir; the way it is handled, Mr. Mayer, on behalf of the America company sits down with Mr. Kennedy, who represents the New Jersey manufacturing company and they two make out the program.

Q. What do you mean by the "program"?—A. The machines that the America company would like to have manufactured, and the number of the machines, the method of transacting the business does not all come to the directors.

Q. Who determines the prices that the International of New Jersey shall sell?—A. These two men.

Q. Who determines the prices at which the International of America shall pay?—A. These two men with the recommendation of the board of directors.

Q. Each were employees of the two respective boards of directors?—A. Yes, sir.

Q. And the board of directors of the America company is the board of directors of the International of New Jersey?—A. Yes, sir; half of it.

Q. Did the companies make contracts with each other?—A. Yes, sir; they did.

Q. Who signs them?—A. By the various officers the business is transacted. The business is transacted just as separately as it is possible where two companies have the same stockholders.

Q. And where the one company is owned by the other?—A. Where they have the same stockholders.

Q. So you Mr. McCormick, as president of the America company, made a contract with yourself as president of the New Jersey company?—A. That is it.

TABLE 7.—PRODUCTION OF CHIEF KINDS OF HARVESTING MACHINES OF COMPANIES ORIGINALLY MERGED IN THE INTERNATIONAL HARVESTER CO. FOR 1902.

Company.	Binders.	Reapers.	Mowers.	Rakes.	Corn binders.
McCormick.....	72,263	16,322	136,884	78,668	33,652
Deering.....	54,749	7,234	100,605	58,825	22,657
Champion.....	26,569	1,600	44,397	22,120	512
Plano.....	14,193	2,300	22,174	14,350	1,000
Milwaukee.....	12,627	1,450	20,120	987	300
Total.....	180,401	28,906	324,180	174,950	58,121

The McCormick company had much the largest production for each class of harvesting machines, while the Deering was second in each case. The Champion line was third for binders and mowers, the two most important kinds of machines. The Milwaukee had the smallest output for each kind.

The proportion of the total production of all kinds of harvesting machines in the United States which was acquired by the International Harvester Co. can not be stated with statistical exactness, because complete information is not available concerning the numbers produced or sold by all the other concerns for the year of the merger, 1902. However, it is possible to compare the binders, mowers, and rakes produced or sold by the International Harvester Co.—three of the most important machines—with the numbers produced or sold by the independents for the same year.

In the following tabular comparison the figures are for sales in 1902, except as noted. The relative volume of business for the companies which went into the International Harvester Co. and for the independents, or those which remained outside, are shown with substantial accuracy in the following table for binders, mowers, and rakes in 1902.

TABLE 8.—NUMBERS OF BINDERS, MOWERS, AND RAKES SOLD BY THE COMPANIES MERGED IN THE INTERNATIONAL HARVESTER CO. AND BY INDEPENDENTS, SEASON OF 1902.

	International Harvester Co. companies.		Independent companies.	
	Numbers sold ¹	Per cent.	Numbers sold ²	Per cent.
Binders.....	180,024	90.9	18,128	9.1
Mowers.....	297,880	81.2	68,890	18.8
Rakes.....	165,219	67.0	81,376	33.0

¹ Number produced in case of the Milwaukee company.

² Number produced in case of the Osborne company.

* Number for independents partly estimated.

From the above table it appears that the companies originally merged in the International Harvester Co. had over 90 per cent of the numbers of binders produced or sold in the United States. This figure, it may be noted, agrees very closely with the percentage indicated in the statement quoted on page 75.

For mowers, the percentage of the combination, although distinctly lower, was over 80 per cent.

For rakes, the foregoing table indicates that the proportion of the combination was 67 per cent. Of the total production on which this figure is based, about 5 per cent was estimated. The rake business was of very much less importance, however, than either the binder or the mower business.

Similar figures are not available for comparisons for certain other machines, such as reapers and corn binders. The proportions of these machines produced or sold by the companies originally included in the International Harvester Co., in 1902, were probably nearly as high as for binders.

The foregoing figures give the total business of these companies, including export business. Inasmuch as the independent binder makers included in the foregoing statement (with the exception of the Acme, which had a small foreign business) were especially directed to the export trade, there is no doubt that the proportion of sales in the domestic market, on the part of the companies originally merged in the International Harvester Co., was somewhat higher than the percentage shown above. In the case of mowers, two of the independent concerns had but little foreign business, but even for mowers the percentage obtained by the combination was undoubtedly higher than the figure given above.

CHAPTER III.

COMPARISON OF CAPITALIZATION AND INVESTMENT IN 1902.

Section 1. Methods employed by company in making valuations.

Inasmuch as the principal owners of the stock of the International Harvester Co. have from the beginning been exclusively the persons who promoted and organized the company, the question whether the capitalization was greater than the value of the net assets acquired, or, in other words, whether the stock was "watered" or not, is of public interest chiefly from the point of view of the reasonableness of the profits on the investment.

Some light has already been thrown on the question of the reasonableness of the capitalization in the discussion of the formation of the company (see pp. 79-84). The indirect evidence there considered tended to show that while a greatly excessive capitalization was apparently contemplated as a possibility (see p. 80), it was not carried into effect in any conspicuous degree, and certainly not on the enormous scale often practiced at that time. The question of the reasonableness or unreasonableness of the capitalization is capable, however, of a more definite demonstration by a detailed analysis of the values of the properties acquired.

While the original contracts on which the merger was based provided that stock should be issued for property and good will conveyed on the basis of appraised values, it has been shown above (p. 83) that this plan was not carried out in the manner originally planned, but that instead certain amounts were fixed by George W. Perkins more or less independently of the appraisals. Appraisals, however, were made for certain classes of property at the time of the merger, and at a later date the values of certain other classes of property were appraised and used in the accounts as the book values of such properties.

In the early years of the operations of the International Harvester Co., the books were kept in an extraordinarily loose manner, and complete general accounts of assets and liabilities and of profit and loss were not made up, according to the statements of the officials of the company, until after the end of 1906. Combined balance sheets and profit and loss statements for the earlier years were subsequently made up by the International Harvester Co. at the request of the Bureau. Combined balance sheets and profit and loss statements for

1907 were the first to be made public and were shown in the annual report for that year. This report of 1907 showed a surplus of a little more than \$12,000,000, respecting which the company made the following statement:

The above surplus is composed solely of the balance of net earnings of the business during the five years of operations, after deducting dividend payments, the board of directors having decided to charge off surplus of \$7,076,229.65 existing at organization, October 1, 1902, by reason of the excess of the appraised value of the physical property (including inventories) then acquired (\$67,076,229.65) over the par values of the capital stock issued therefor (\$60,000,000).

Apparently this book value of \$67,076,229.65 was established in 1907 with a view to showing the conservative valuation of the assets as compared with the capitalization.¹ The opening entries in 1907 for certain items of property entering into this book value, e. g., timber properties and ore leases, were finally decided apparently as late as 1905. On the other hand, the appraisals for a large part of the property, e. g., plants, inventories, etc., were completed shortly after the merger. Some of these items were appraised at values greatly in excess of their costs or their book values as shown by the accounts of the companies merged, and also in some cases in excess of any reasonable valuation, as will be shown more particularly below.

The whole discussion of the value of the property acquired and the amount of stock issued is naturally divided into two parts: (1) Physical property, etc., for which (and for promoters' services and expenses) "plant stock" in the amount of \$60,000,000 was issued (the good will being conveyed likewise); and (2) working capital, for which an additional amount of \$60,000,000 of "cash stock" was issued, paid for either in cash or in net cash receipts from bills receivable assigned by the vendor companies to the International Harvester Co.

COMPARISON OF APPRAISAL AND OF TRUE VALUE OF PHYSICAL PROPERTY ACQUIRED.—As stated above, the total appraisal of the physical property acquired was \$67,076,229.65. For certain items, such as ore leases, the net appraised value was used, i. e., the total value less the amount of obligations assumed in connection therewith. The amount of these obligations, however, was comparatively small, aggregating \$916,753.40. The total appraisal of the physical property also included some other net working capital, particularly that acquired from the Milwaukee company, amounting to \$495,327.96.

The appraisal as given above did not include any allowance for good will, patents, trade-marks, etc., which were claimed by the

¹ Compare treatment of good will in making up the first balance sheet of the International Harvester Co., p. 129.

International Harvester Co. to have a large value. The original contracts provided for the appraisal of the good will (the method and results of which will be shown below), but according to the official statements of the company it was never included in the book value of the property of the International Harvester Co. in its statements of assets.¹ Hence, although this kind of property ought to be considered in discussing the question whether the stock issued was excessive or not, it is not proper to consider it in making a comparison of the value of the physical property and the stock which was claimed to be issued against such physical property.

The basis for criticizing the appraisal of the several items of property is partly found in the different valuations put on such property by the predecessor companies, but also in data as to the actual cost or current market values of such property or from other valuations subsequently made by the International Harvester Co. Furthermore, in the books of the International Harvester Co. itself certain readjustments were made with respect to the appraised values which are of importance in this connection.

The Bureau made repeated efforts to secure access to the books and accounts of the predecessor companies, but was only partially successful in doing so, on account of difficulties and delays interposed by the parties who had possession of such material. Although these parties were officers or directors of the International Harvester Co., the company claimed that it had no power to produce such data. Nevertheless, for three of the five predecessor concerns, namely, the McCormick, Deering, and Milwaukee companies, considerable information was obtained in the form of balance sheets and other accounting statements, substantially for the year 1902, which make possible a fairly comprehensive criticism of the total value of the property acquired.

The total appraisal of \$67,076,229.65 for the property of the five companies for which the \$60,000,000 plant stock was issued was made up among these five companies as follows:

Champion -----	\$3, 824, 251. 45
Deering -----	28, 081, 514. 69
McCormick -----	20, 461, 481. 03
Milwaukee -----	3, 148, 196. 66
Plano -----	2, 708, 982. 48
<hr/>	
Total -----	67, 224, 426. 31
Less amount for Milwaukee adjustment (explained below) -----	148, 196. 66
<hr/>	
Total -----	67, 076, 229. 65

¹ For a slight modification of this statement, see p. 198.

Of this total amount—\$67,076,229.65—the appraisals of the McCormick and Deering properties constituted \$57,542,995.72, or over 85 per cent. If to this amount be added the appraisal of the Milwaukee company, which was taken over at a book value of \$3,148,196.66, the total appraised value for which the figures of the predecessor companies are available becomes \$60,691,192.38, or slightly over 90 per cent of the total appraisal. For this part of the property the Bureau, as stated above, obtained sufficient data to make a fairly complete criticism of the appraisal. It is evident, therefore, that although the appraisals of the Plano and Champion (Warder, Bushnell & Glessner Co.) properties were undoubtedly excessive, yet inasmuch as the appraisal of these properties amounted to less than 10 per cent of the total appraisal, the overvaluation on their account was comparatively small. Moreover, for the appraised value of the inventories of these two concerns, aggregating \$3,460,513.27, the Bureau obtained data which enabled it to revise them also.

The appraisals which were used in the property account of the International Harvester Co. were provided for in great detail in the contracts of July 28, 1902, and subsequent contracts relating to the plan of the merger which have been described above (p. 82). For several important classes of property it was provided that three appraisers should assess valuations for the same item of property, two of them to be appointed by J. P. Morgan & Co. and the third by the respective vendors. For certain other classes of property, the whole problem consisted in getting at the values as shown by the books of the predecessor companies, which involved, of course, no original appraisal. For certain items of property, however, the appraisal was left to J. P. Morgan or George W. Perkins; among these were the McCormick railroad, and the Deering ore, coal and iron properties.

The plant properties of the Champion and Plano companies were appraised by one set of appraisers only and their valuations were accepted for the purpose of determining the book value. Inasmuch as the contracts of August 17, 1903, finally fixed the amount of stock to be allotted independently to some extent of the original agreement as to appraisals, there was apparently little reason for conflict of opinion or interest after that date as to the valuations which should go on the books, but much dispute nevertheless appears to have occurred.

In comparing the book values adopted by the International Harvester Co. with the book values of the same property on the books of the predecessor companies, it should be noted that considerable differences might naturally occur for several reasons. A higher

value in the former case would not always necessarily indicate an intent to overvalue the property acquired. For example, the real estate might be booked by a certain predecessor company at its original cost, while the appraisers might attempt to give its current market value. Again, it is possible that some plants were enlarged and improved by expenditures from earnings which were not charged to property accounts. The refusal of the parties representing the predecessor companies to give access to their accounts made it impossible to ascertain precisely to what extent this had ever occurred. At any rate, it is certain that for some items of property the appraised values were put at figures which are demonstrably greatly in excess of any reasonable valuation.

Section 2. Appraisal of McCormick properties.

The total appraisal of the physical properties conveyed by the McCormick company was \$29,461,481.03, as shown on page 96. The following table summarizes and compares the book values of such property as shown by the balance sheets of the McCormick Harvesting Machine Co. for October 1, 1902, with the appraised values adopted by the International Harvester Co. on its books:

TABLE 9.—BOOK VALUATIONS OF PHYSICAL PROPERTIES OF MCCORMICK HARVESTING MACHINE CO. TRANSFERRED TO THE INTERNATIONAL HARVESTER CO. IN 1902, AND VALUATIONS OF THESE PROPERTIES ADOPTED BY INTERNATIONAL HARVESTER CO.

Item.	McCormick book value.	International Harvester Co. book value.	Increase of Harvester Co. book value.
Factory real estate.	\$1,341,149.12	\$4,993,909.00	\$3,652,759.88
Factory buildings and machinery.	5,845,858.10	7,401,692.92	1,555,834.82
Illinois Northern Railway.	(¹)	2,553,944.31	2,553,944.31
Agency property.	1,176,306.11	1,571,905.85	395,599.74
Timber.	314,950.65	314,363.86	² 586.79
Miscellaneous plant and property.	520,764.23	886,842.39	366,078.16
Inventory.	³ 10,562,793.59	11,738,822.70	1,176,029.11
Total.	19,761,821.80	29,461,481.03	9,699,659.23

¹ Leasehold and equipment not separately booked by McCormick Co.; equipment included apparently in item of factory buildings and machinery (appraised at \$53,944.31); see p. 101.

² Decrease.

³ Includes on hand freight and duty (\$231,504.15) as shown by appraisal not shown in McCormick balance sheet, but added by the Bureau.

The appraisal of the McCormick company property was made by two different appraisers for most of the items, but in almost every case the book figure finally adopted by the International Harvester Co. was the higher appraisal. These differences in the appraisals will be compared more particularly below in connection with the figures adopted by the Bureau as the proper values for the several items of property.

In determining what was the book value of the McCormick company in a given case, it was generally possible to find the exact item to be compared with the appraisal either from the balance sheet or from other data obtained from the accounts of the McCormick company, but in one case, that of the Illinois Northern Railway equipment, no such item could be found, and it was apparently included among the items of factory buildings and machinery. In respect to another group of items, namely, agency property, the particular items of real estate, buildings and equipment were not grouped in the same way in the balance sheet or in other data obtainable, as they were in the appraised book values adopted by the International Harvester Co., so that only a comparison of the totals given in the above table is practicable in this case. (See p. 104.)

Before going into the determinations of the Bureau regarding the fair market value of the properties of the McCormick company, certain comparisons may be made between the values shown in the foregoing table. In the first place, the total book value of the McCormick company as carried on that company's books for the property included in the table was \$19,761,821.80, as compared with the book value adopted by the International Harvester Co. of \$29,461,481.03, a difference of no less than \$9,699,659.23. The greatest discrepancy appears in the case of factory real estate (land), namely, \$3,652,759.88, and the next in the valuation of the Illinois Northern Railway, namely, \$2,553,944.31. Large differences also appear in the values of buildings and machinery, and in inventories. More detailed comparisons will show that several items were booked by the International Harvester Co. at the same amounts as they appeared on the McCormick company's books, but these were comparatively unimportant.

The Bureau does not regard the comparison shown in the foregoing table as a safe criterion of the extent of overvaluation involved in the book values adopted by the International Harvester Co. The determination of the amount of overvaluation which existed, according to the opinion of the Bureau, requires a more particular analysis, which will now be taken up.

FACTORY REAL ESTATE.—The factory real estate in Chicago (by which is meant land only) as shown by the books of the McCormick company for October, 1902, amounted to \$1,279,858.49; including other real estate of \$61,290.63, the total is \$1,341,149.12.

The book value used by the International Harvester Co. for this same land was \$4,993,909.00, an increase of no less than \$3,652,759.88 over the McCormick book figures. The value used by the International Harvester Co. was that reported by one of the appraisal companies which appraised the value of the property at the time of the merger.

However, another appraisal was made at the same time, according to which this same property was valued at only \$2,550,156.60.

The old book value itself was \$650,661.41 greater than the value of the corresponding items as shown on the balance sheet of the company for the preceding year. During 1902, however, the company made considerable additions to its real estate holdings; and it is to be presumed that these in a large measure at least explained the increase in book values.

In view of the evidence that the higher appraisals, particularly of natural resources, were frequently excessive, the Bureau is satisfied that the appraisal of \$4,993,909.00 for this McCormick land was altogether too high. One of the officials of the International Harvester Co., when questioned on this point, said:

The higher valuation was adopted in the books for two reasons: first, because it was considered a reasonable valuation at that time, and, second, because there being no good will in the capitalization of the International Harvester Co. it was considered only fair and proper that the higher valuation of the appraisal should be used.

This statement clearly indicates that the valuation placed upon this real estate was excessive in that one reason why the International Harvester Co. felt justified in adopting it was that the company did not take account of good will in computing its assets.

The Bureau is inclined to the opinion that the lower appraisal may have been sufficiently high. However, a considerable amount of the real estate of the McCormick interests, approximately one-ninth of the total owned outright, had been bought as early as 1879, and several additional purchases had been made prior to 1900; there had been a considerable appreciation in the value of this, which may not have been taken account of on the company's books. On account of the great changes which have taken place since this property was appraised for the purposes of the International Harvester Co., it is impracticable to attempt to establish the 1902 valuations by investigation. Therefore, the Bureau decided to use the average of the two appraisal figures, namely, \$3,772,032.20; this mean figure is \$1,221,876.20 less than the value adopted by the International Harvester Co.

FACTORY BUILDINGS AND MACHINERY.—This property, as shown by the McCormick company's books for October 1, 1902, was valued at \$5,845,858.10. This valuation was \$1,549,217.83 higher than the value of the corresponding item on the balance sheet for the preceding year. A considerable part of this increase is accounted for by new construction.

The book value accepted for this property by the International Harvester Co., however, was even greater, and amounted to no less than \$7,401,692.92, exceeding the McCormick company book value by

\$1,555,834.82. The International Harvester Co. in this case again took the higher appraisal value. The lower appraisals for these items aggregated \$6,895,942.99. For this property the Bureau adopted a somewhat different standpoint than for the real estate. There is abundant evidence that the book values adopted by the International Harvester Co. were generally excessive. There is no convincing evidence that the McCormick company's book values were too low. Hence the Bureau regarded the lower appraisal of the McCormick company's property as probably liberal in this case, and adopted it as the maximum value of this property. As this value was \$6,895,942.99 as compared with the International Harvester Co.'s book figures of \$7,401,692.92, there was an overvaluation in this item of \$505,749.93. This lower appraisal value, it should be noted, was \$1,050,084.89 in excess of the former book value.

ILLINOIS NORTHERN RAILWAY.—This railroad property was simply a leasehold of a short industrial line in Chicago, connecting the McCormick plant and a considerable number of industrial establishments with some of the main railway lines entering Chicago. Apart from the leasehold, the McCormick company property was limited to the equipment. The Bureau's data of the book value of the McCormick company contained no specific item for this property, and the equipment may have been included in other items, such as buildings and machinery, of the McCormick company plant, or possibly in some other items on the balance sheet not included in the foregoing table. This equipment was appraised at \$53,944.31. The McCormick company's books in 1902 apparently contained nothing whatever for leasehold values.

The Illinois Northern Railway was incorporated in 1901 and had a capital stock of \$500,000.00. Its net book assets in 1903, as shown by a balance sheet, were \$490,874.50, in which the book value of the leasehold (exclusive of depreciation) was put at \$431,320.40.¹ The basis of this valuation of the leasehold is not known. Accepting the value given for the leasehold therein—namely, \$431,320.40—and adding to this the appraised value of the equipment in 1902—namely, \$53,944.31—the total value as indicated by the books and the appraisal would be \$485,264.71.

The valuation adopted by the International Harvester Co. for its book value of this property was no less than \$2,553,944.31, of which \$2,500,000.00 was for franchise value, and the rest for the value of the equipment. Another appraisal was made of this property by the American Appraisal Co. which placed the value of this railroad property at \$1,553,944.31, but this appraisal was not used. This is a striking example of the overvaluation of property adopted by the Inter-

¹ Earliest data available being for June 1, 1903.

national Harvester Co. The above-mentioned franchise valuation of \$2,500,000 was based on the letter of a railroad man, one J. E. Gorman, general freight agent of the Atchison, Topeka & Santa Fe Railroad, in which it is apparent, though not expressly stated, that the main basis of this valuation was the possibility of the International Harvester Co. using this industrial railroad to obtain exorbitant freight divisions through its control of the routing of the traffic of the McCormick plant or other industrial establishments located thereon. Excerpts from his letter to the accountants in charge of the appraisals are given below.

CHICAGO, ILL., *February 14, 1903.*

Report on Illinois Northern Railway.

MESSRS. JONES, CAESAR & COMPANY,
Tribune Building, Chicago.

GENTLEMEN: In accordance with request of your Mr. Reay, I have made an examination of the Illinois Northern Railway, with a view of advising you of my conclusions as to its value.

Understanding, as I do, you already have full description of the property, with estimates as to its value, as determined by an engineer, I will not undertake to deal with it from that standpoint, because I do not deem it the proper one, and also because if it were to be measured that way, I would not, on account of being purely a traffic man, be able to form an intelligent opinion.

* * * * *

My idea of the true measure of the value of the property is its earning power, present and prospective.

The Illinois Northern Railway has now direct actual track connection with thirteen other Chicago railroads, and through some of these thirteen, with every railroad entering Chicago. Its traffic relations with each and every railroad entering Chicago are of the most friendly character. It is understood by all the roads that the Illinois Northern dictates the routing of the immense freight business of the McCormick Harvester Works. All of the roads are anxious to secure the very largest possible share of this heavy traffic. The control of the routing of the McCormick traffic, which is secured to the Illinois Northern Railway by a long time contract, is the present real life and strength of the Illinois Northern Railway, and that will, in my opinion, continue to be its principal strength; though when the plans now being worked out are completed, the McCormick business will constitute a considerably smaller proportion of the total business done by the road than it does now.

* * * * *

I have gone into its present and future traffic prospects with particular care, and while I am, I may say, thoroughly posted on that subject, I will, on account of reasons explained to your Mr. Reay, refrain from giving here in writing, in detail, the method of figuring by which I reached my conclusions. I have satisfied myself, however, the property should earn at this time about

\$125,000.00 per year, or five per cent (5%) net on a capitalization of Two and One-Half Million Dollars, and I am well satisfied that the plans which the management have in mind, and which are perfectly feasible and they will be able to carry out, will put it in a position by the year 1905 to show a net increase of in the neighborhood of fifty per cent over present earnings.

* * * * *

In closing I want to say that the road as it was, under the Atchison ownership, did not, would not, and could not ever have the value, or anything approaching it, I now place on it. Under Atchison ownership it was simply a branch line through a portion of the city; under its present ownership, and its contract with the McCormick Company it is a power, and a big earner for its owners.

* * * * *

Yours truly, (Signed) J. E. GORMAN.

It will be noted that Mr. Gorman specifically stated that the valuation he ascribed to the property would not attach to it if it were a part of an ordinary railroad system. He based his conclusions on the anticipated earning power of the property, and this undoubtedly depended on the expectation that very large freight divisions would be obtained from other railroads. As a matter of fact the International Harvester Co. did adopt this policy and was receiving freight divisions of \$12 per car when the Interstate Commerce Commission intervened in 1904 and declared that such divisions were unlawful and prescribed a maximum division of \$3.50 per car. (See p. 155.)

The earnings predicted by Mr. Gorman were never approached by the company even prior to the ruling of the Interstate Commerce Commission on its freight divisions, which were obviously unreasonable and therefore not a proper basis for valuation. Subsequent to that ruling the profit and loss accounts of the railroad company (disregarding intercompany rentals) showed a deficit in two years, while in several other years the earnings were comparatively small. For example, according to the company's own accounts there was a deficit (disregarding intercompany rentals) of \$15,338.24 in 1906 and of \$24,700.61 in 1907. These deficits appear before certain so-called "adjustments for prior years" are made, which would convert the deficit in 1906 to a small surplus. In 1908, 1910, and 1911 the net earnings were only \$31,254.49, \$32,543.87, and \$18,238.89, respectively.

In view of these facts, and furthermore in view of the emphatic statement in Mr. Gorman's letter that as a part of an ordinary railroad this Illinois Northern would not have had the value "or anything approaching" the value which he placed upon it, it is apparent that the valuation adopted by the International Harvester Co. was grossly excessive. In the opinion of the Bureau, the value of this leasehold as shown by the balance sheet of 1903, and the appraised value of the equipment, which together aggregate \$485,264.71, repre-

sent a fair valuation of this property at the time of its acquisition. The difference between this value and that adopted by the International Harvester Co.—namely, \$2,068,679.60—may be taken, therefore, as the overvaluation in this case.

AGENCY PROPERTY.—The agency property, including real estate (land), buildings and equipment, stood on the McCormick company's books at \$1,176,306.11, while the book value adopted by the International Harvester Co. was \$1,571,905.85. Another appraisal put the value at \$1,549,557.71. The items are differently grouped in the appraisal adopted from the entries on the McCormick company's books, so that a satisfactory detailed comparison is not practicable.

This agency property included a considerable amount of land in small parcels at various points at which the company had its warehouses and agencies. In many of these localities there had undoubtedly been some appreciation in this land. The Bureau is unable to state how far this appreciation may have been allowed for on the books of the McCormick company. In view of these facts, the Bureau has used the lower appraisal of \$1,549,557.71, which is only \$22,348.14 lower than the International Harvester Co.'s valuation.

TIMBER.—The timber property acquired from the McCormick Co. consisted of timberlands and rights. These were appraised by the International Harvester Co. at \$314,363.86. The book figures of the McCormick Co. were \$314,950.65.

Of the McCormick timber properties the principal one was the Pole Stock Lumber Co., which was appraised at \$242,720, or about 77 per cent of the total appraised values of the McCormick timber properties. The appraisal on this tract is stated to be its book value. It comprised 23,672 acres of timberlands and also the right to cut timber only on 600 acres of land. The values do not appear to be excessive and may be accepted at the appraisal figures. All the remaining items of the McCormick timber properties except one, namely, a contract with Scatchard & Sons, valued at \$55,102.86, were of very small amounts. It is stated in connection with the appraisals that the contract with Scatchard & Sons covered: "The right to cut cottonwood timber only on 22,678 acres in Poinsett County, Ark., at a stumpage of \$2 per thousand feet. This acreage was estimated to contain 35,000,000 feet of cottonwood timber on which a sum of \$70,000 was advanced. Up to September 30, 1902, there had been cut 7,448,566 feet of this timber, leaving 27,551,434 feet still to be delivered." The value of the contract was appraised by multiplying the remaining quantity of timber by the price per thousand feet paid for it in advance, giving \$55,102.86, as stated. This appears to have been a paid-up right.

MISCELLANEOUS PLANTS AND PROPERTY.—Four items are included under this head for which there were two widely different appraisals for the first while the appraisals for the other three were alike except

for a small difference in the sawmill item. The items and the appraisals adopted were as follows:

Powers Building, Chicago-----	\$651,446.15
Interest in H. W. Peabody & Co-----	75,000.00
Sawmill at Mosher, Ark-----	49,373.11
Compañía Industrial de Baja California-----	111,023.13
Total -----	886,842.39

The Powers Building consisted of a leasehold in the city of Chicago and office-building improvements thereon, valued on the McCormick company's books at \$20,000 and \$279,872.08, respectively. The book value adopted by the International Harvester Co. was \$400,000.00 for the leasehold and \$251,446.15 for the improvements, the total amount being \$651,446.15. Another appraisal was made of this leasehold interest of \$206,250, and also a second appraisal of the improvements, namely, \$175,859.23, the total amount being \$382,109.23. Some years later the lease of the Powers office-building property was disposed of by the International Harvester Co. at very much more than the higher appraisal. However, during the meantime there had been a very remarkable advance in real estate values in that part of the city of Chicago where this building was located, and this great subsequent increase in value can not be used as indicating the value at the time the company was organized. In this case, the Bureau adopted the mean of the two appraisals—namely, \$516,777.69—as fairly representing the value of this property at the time the company was organized. The difference between the appraisal and the Bureau's valuation in this case was \$134,668.46.

For the other miscellaneous property the values as shown by the McCormick company's books, with one important exception, were very nearly the same as the values adopted by the International Harvester Co.

The investment in H. W. Peabody & Co., appraised at \$75,000, was a one-fourth interest in the hemp business of that firm. H. W. Peabody & Co. gave notice of dissolution of partnership in August, 1902, and paid \$75,000 to the McCormick company for its interest; the dissolution took effect February 28, 1903. In this case the Bureau accepted the appraised value.

The appraisal of the sawmill property was \$49,373.11, while it stood on the books of the McCormick company at \$34,869.02. In this case also the Bureau adopted the appraised value.

In the case of the Compañía Industrial de Baja California, which has a fiber ranch in Mexico, however, the property was evidently overvalued in the McCormick company's books as well as in the appraisals. This fiber ranch was owned by the Mexican company above named, which was organized in 1900. It had a capital stock of \$100,000, of

which three-fifths was originally held by the McCormick company. In 1901 the McCormick company bought one-half of the balance of the stock for \$3,500. On this basis the total valuation of the property would be only \$17,500; and the four-fifths interest of the McCormick company would be \$14,000. The McCormick company spent apparently about \$111,023.13 on this speculation, and this figure was used as the appraised value. This company had some property, including a large tract of land in Lower California (113,217 acres) for the cultivation of sisal, and also some machinery, etc., valued at \$35,664.28; also Mexican bonds booked at \$16,942.50. Apparently the only valuable assets were the Mexican bonds, because nothing was ever made from this venture, and the fixed property and machinery were afterwards almost completely written off the International Harvester Co.'s books. The proper valuation of the McCormick company interests for this item, therefore, would apparently be the valuation given above, based on the price paid for one-fifth of the stock in 1901 by the McCormick company, namely, \$14,000. This would indicate an overvaluation of \$97,023.13 for this item.

For this group of miscellaneous properties the appraised value was \$886,842.39, while the valuation adopted by the Bureau was \$655,150.80, showing a difference of \$231,691.59.

INVENTORY.—The inventory, which includes not only finished machines, but also raw materials and work in progress, was booked by the McCormick company for October 1, 1902, at \$10,562,793.59. This amount includes the sawmill inventory of \$39,465.39 and \$231,504.15 for freight and duty paid on machines, as shown in the appraisal of the inventory, but which was not embraced in the book value of inventory as kept by the McCormick company. This latter amount was added by the Bureau in order to make the two inventories comparable. The appraisal of the inventory for the same date which was adopted by the International Harvester Co. was \$11,738,822.70. Another appraisal of the McCormick inventory for September 30, 1902, was made by Jones, Caesar & Co. at the time of the merger for the purpose of determining profits, which, though it does not cover all the items, yet so far as it goes agrees substantially with the McCormick book values. Jones, Caesar & Co. describe the method of making this inventory as follows:

As instructed the basis of valuation of inventories for determining profits has been cost throughout.

Repair parts at the Works and in the Country have been valued at 20% of the List Price.

Finished Machines inventoried at the close of a season are valued at that Season's Cost, irrespective of the years make of the machines. No allowance has been made for damaged or depreciated machines carried over from season to season, this question being left for determination by the Final Board of Appraisers.

This appraisal by Jones, Caesar & Co. indicates that the McCormick book values were not figured on an unduly low basis. In fact it appears that they were probably too high, inasmuch as no allowance was made apparently for depreciated machines or old models. The Bureau arrived at similar values for the Deering, Champion and Plano inventories without allowance for depreciation, giving inventories aggregating \$21,286,883.64 for the four vendor companies, or together with the Milwaukee inventory, \$22,730,650.31. The International Harvester Co. appraised these inventories at \$25,548,162.42, but subsequently wrote them down to \$18,155,353.52 as a "fair trading value." The Bureau regarded this reduction as excessive and considered that at the outside the depreciation which could be fairly allowed was \$1,500,000. The positions of the Bureau and of the International Harvester Co. in respect to this matter are more fully discussed below (see p. 201). This depreciation of \$1,500,000 was made with respect to the inventories of the four vendor companies only and was prorated over each company. The depreciation thus allocated to the McCormick Co. was \$744,317.05. This gives a net value for the McCormick inventory of \$9,818,476.54 or \$1,920,346.16 less than the appraisal.

SUMMARY OF THE MCCORMICK COMPANY VALUATION.—The value of the McCormick company's property conveyed to the International Harvester Co. has been examined above, and certain amounts determined as the reasonable or maximum valuations in each case. It is probable that for some items these valuations are considerably too high. It is quite unlikely that any of the groups of items have been appreciably undervalued. It seems probable that if the Bureau had more complete information, a considerable reduction in the aggregate could be made.

The results of this criticism are shown in the following table:

TABLE 10.—VALUATIONS OF THE INTERNATIONAL HARVESTER CO. OF THE PHYSICAL PROPERTIES TRANSFERRED TO IT BY THE MCCORMICK HARVESTING MACHINE CO. IN 1902 AND VALUATIONS OF THESE PROPERTIES ADOPTED BY THE BUREAU.

Item.	Valuation adopted by the International Harvester Co.	Estimate of value by Bureau.
Factory real estate.....	\$4,993,909.00	\$3,772,032.80
Factory buildings and machinery.....	7,401,692.92	6,895,942.99
Illinois Northern Railway.....	2,553,944.31	485,264.71
Agency property.....	1,571,905.85	1,549,557.71
Timber.....	314,363.86	314,363.86
Miscellaneous plant and property.....	886,842.39	655,150.80
Inventory.....	11,738,822.70	9,818,476.54
Total.....	29,461,481.03	23,490,789.41

The book value adopted by the International Harvester Co., namely, \$29,461,481.03, has therefore been reduced by the Bureau to \$23,490,789.41, as the proper value of this property, indicating an overvaluation by the International Harvester Co. of \$5,970,691.62. In this connection should be noted the value of this property on the books of the McCormick company, namely, \$19,761,821.80, which is \$3,728,967.61 lower than the value allowed by the Bureau.

Section 3. Appraisal of Deering properties.

The total appraisal of the physical property conveyed by the Deering company was \$28,081,514.69. The following table summarizes and compares the book values of such property as shown by the balance sheet of the Deering Harvester Co. for January 31, 1903, with the appraisal adopted by the International Harvester Co.

TABLE 11.—BOOK VALUATIONS OF PHYSICAL PROPERTIES OF DEERING HARVESTER CO., TRANSFERRED TO THE INTERNATIONAL HARVESTER CO. IN 1902, AND VALUATIONS OF THESE PROPERTIES ADOPTED BY THE INTERNATIONAL HARVESTER CO.

Item.	Deering book value.	International Harvester Co. book value.	Increase of Harvester Co. book value.
Factory real estate	\$670,642.45	\$1,563,165.63	\$892,523.18
Factory buildings and machinery	2,579,231.38	5,523,041.88	2,943,810.50
Agency property	226,495.26	471,898.94	245,403.68
Ore, coal, iron, and steel	11,589,093.31	9,511,400.44	7,922,307.13
Timber property	275,567.88	1,560,436.36	1,284,868.48
Miscellaneous property	356,773.01	546,511.66	189,738.65
Inventory	38,060,598.58	8,905,059.78	844,461.20
Total.	13,758,401.87	28,081,514.69	14,323,112.82

¹ Without deduction of purchase-money obligations of \$916,753.40, which are deducted in the International Harvester Co. valuations.

² Not including Mann property, appraised at \$28,414.89 and at \$34,532.68, respectively.

³ Includes \$240,590.18 on hand, freight and duty, as shown by appraisal, not shown in Deering data, but added by the Bureau.

Some items were appraised by two appraisers and others by one appraiser only. For use in its property account, the International Harvester Co. almost invariably adopted the higher appraisal value. The total book value adopted was \$28,081,514.69, while the total book value as shown by the books of the Deering company was only \$13,758,401.87, showing a difference of no less than \$14,323,112.82. Over one-half of this enormous discrepancy, namely, \$7,922,307.13, is found in different valuations assigned to the iron and coal lands and iron and steel plants put in by the Deering company,¹ the rest

¹ To be strictly comparable this should be increased by \$916,753.40, the sum of the purchase money obligations which are not deducted from the Deering book values but are deducted from the appraisal.

being found in the valuations of timber property, manufacturing plants, inventories, etc.

In comparing the book values of the Deering company with the book values adopted by the International Harvester Co., it was generally possible to find corresponding items in each case. In some cases, however, the particular items were differently grouped, so that only totals of certain groups can be compared. This applies, for example, to the groups for agency property and miscellaneous property. The Bureau does not regard this comparison based on the book values of the Deering company conclusive as to the question of the degree of overvaluation adopted by the International Harvester Co., but this comparison does make it evident, however, that there was a very large overvaluation. It should be noted further that the Deering figures used are for a balance sheet of January 31, 1903, and not for the date of the appraisal, October 1, 1902. This difference in time, however, was of very little importance, except in the case of inventories.

In order to criticize these values intelligently, it is necessary to consider the several groups of property in more detail.

FACTORY REAL ESTATE.—The Deering company book value for factory real estate in Chicago, by which is meant the site only, was \$670,642.45, as shown by the balance sheet for January 31, 1903.¹ The book value accepted by the International Harvester Co. was \$1,563,165.63, showing an increase in valuation of \$892,523.18. According to another appraisal of this property, the value was \$958,386.09.²

Inasmuch as it is impracticable for the Bureau to attempt a valuation of this real estate for 1902, and as it is quite conceivable that there was an appreciation of this realty of which due account was not taken on the books of the Deering company, the Bureau instead of using that book value has taken the mean of the two appraisals made for the International Harvester Co. as the proper value of this property, or \$1,260,775.86. This shows an overvaluation in the figures adopted by the International Harvester Co. of \$302,389.77.

FACTORY BUILDINGS AND MACHINERY.—The value of the factory buildings in Chicago, as shown by the books of the Deering company, was \$1,544,738.08. The book value adopted by the International Harvester Co. was \$2,119,739.52, an increase of \$575,001.44.

¹ Corresponding book values of the Deering company for Feb. 1, 1902, are not available for factory real estate separately, but between these two dates there was not any marked increase for land and improvements combined.

² This is not quite exact, as this amount is computed by subtracting from the total of the first appraisal, \$1,197,155.71, the single known appraisal of other Chicago real estate, viz, \$238,769.62.

For machinery the Deering company balance sheet shows a book value of \$1,034,493.30, while the book value adopted by the International Harvester Co. was no less than \$3,403,302.36, an increase of \$2,368,809.06.

For these two items of factory buildings and machinery taken together the adopted appraisal was \$5,523,041.88, while the lower appraisal amounted to \$5,070,274.73.

It will be noted that the disparity between the appraisal values and the book values was relatively much greater than in the case of the McCormick company for these items. One reason for this appears to be that the Deering concern had written down its building and machinery valuations very sharply. A representative of the International Harvester Co. said on this point:

* * * it had been the custom of the Deering Harvester Co. to reduce the book value of their buildings by 6 per cent per annum and the book value of their machinery by 10 per cent per annum, both of which were excessive rates of depreciation. The concern was a private partnership, and they naturally felt justified in treating their accounts as rigorously as they chose. But at October 1, 1902, this had produced a low book valuation for their buildings, machinery and equipment.

Q. An unduly low valuation?—A. Presumably.

While in this case the Bureau was unable to establish for how long a period the Deering interests had written off so large a percentage for the depreciation of buildings and machinery, it is apparent that so large an allowance might leave the result an unduly low book valuation. The Bureau in this case adopted the lower appraisal amounting to \$5,070,274.73 for the factory buildings and machinery taken together. This, it will be observed, was \$2,491,043.35 in excess of the Deering book value.

AGENCY PROPERTY.—The agency property of the Deering company was booked at \$226,495.26, while it was appraised and entered on the books of the International Harvester Co. at \$471,898.94. Another appraisal, however, was made of this property, namely, \$417,904.31, which was not adopted. The general indications of overvaluation were so strong that the Bureau adopted the lower appraisal of \$417,904.31.

IRON-ORE AND COAL PROPERTY AND IRON AND STEEL PLANTS.—The principal discrepancy between the original book values of the Deering company and the accepted book values of the International Harvester Co. is found with respect to this class of property. When the items are examined in detail, it appears that this discrepancy arises chiefly from differences in the valuation of certain leaseholds of iron-ore mines, as shown by the table following:

TABLE 12.—BOOK VALUATIONS OF ORE, COAL, IRON, AND STEEL PROPERTIES OF THE DEERING HARVESTER CO., TRANSFERRED TO THE INTERNATIONAL HARVESTER CO. IN 1902, AND VALUATION OF THESE PROPERTIES ADOPTED BY THE INTERNATIONAL HARVESTER CO.

Item.	Deering book value.	Book value International Harvester Co.	Increase of Harvester Co. book value.
Iron-ore property.....	\$812,768.87	\$8,194,851.55	\$7,382,082.68
Coal lands.....	207,250.64	139,121.60	¹ 68,129.04
South Chicago Furnace Co.....	285,875.00	682,000.00	396,125.00
South Chicago steel plant.....	283,198.80	495,427.29	212,228.49
Total.....	² 1,589,093.31	9,511,400.44	7,922,307.13

¹ Decrease.

² Without deduction of purchase-money obligations of \$916,753.40, which are deducted in the International Harvester Co. valuation.

Of the total discrepancy of \$7,922,307.13 for the above-listed properties, \$7,382,082.68 is found in the valuation of iron-ore properties. The overvaluation of these iron-ore properties, as will be presently shown, relates almost entirely to two leaseholds (Hawkins and Agnew) in the Mesabi Range, the rest of the iron-ore property being valued at such small amounts that no correction was made by the Bureau. This constituted the clearest and also the greatest overvaluation in the entire appraisal of the International Harvester Co.

The Hawkins leasehold, according to the statement of the International Harvester Co., was appraised as follows:

Tonnage determined at 14,400,000 tons by joint appraisal of E. J. Longyear and A. P. Silliman, and equity valued at 42.5 cents per ton.....	\$6,120,000
Less, obligations assumed at date of purchase, as follows: Two notes for \$175,000 each, dated Apr. 19, 1902, and due in one and two years, respectively, with interest at 5 per cent.....	350,000
Balance	5,770,000

This estimate of tonnage was apparently reported to the International Harvester Co. in October, 1905. The royalty was 20 cents per ton. The total bonus paid for the transfer of this leasehold was \$525,000, of which one-third, \$175,000, was paid in cash, and two-thirds, or \$350,000, in notes with interest at 5 per cent.

An appraisal made by Jones, Caesar & Co. (which, however, was not adopted by the International Harvester Co.) showed that in addition to this bonus payment, expenses had been incurred in connection with the lease amounting to \$7,757.67, advance royalties paid amounting to \$4,000, and expenditures for surface improvements and equipment amounting to \$35,238.90. Adding these items to the bonus gives a total cost to the Deerings of \$571,996.57.

There is no doubt that the Hawkins mine was a desirable, although not an exceptional, property. Furthermore, there is no doubt that since its acquisition by the International Harvester Co. this leasehold has very greatly increased in value. This increase has come about very largely because of the great increase in concentration of ore properties in the Lake Superior region in the hands of a few large owners, notably the United States Steel Corporation. The Bureau, however, is simply concerned in estimating a fair market valuation for the property at the time it was acquired by the International Harvester Co., and takes the position that any subsequent increase in value should be disregarded in making a study of the valuation in 1902. Furthermore, the Bureau is not attempting to say whether this mining property should have been capitalized at the mere cost. The purpose of this study is to determine the validity or reliability of the valuations placed upon these physical properties at the time the International Harvester Co. was organized.

The Hawkins leasehold was acquired by the Deering interests in January, 1902, or only about seven months before it was transferred to the International Harvester Co. When the mine was acquired it was known that the tonnage was large, the estimates ranging apparently from 9,000,000 to 12,000,000 tons of merchantable Bessemer ore, besides large quantities of low-grade ore. The Deerings, according to the contract of lease of January 27, 1902, made the lease on the representation that the mine contained 9,285,000 tons of merchantable ore that would average 58 per cent metallic iron and not exceeding .045 per cent phosphorus. It was known that large quantities of low-grade ore existed also. This property was apparently not regarded as an open-pit mine when it was acquired by the International Harvester Co., and mining operations were conducted at first by means of a shaft. Production by this method is more expensive than open-pit mining, and tends to diminish the value of the deposit. Although it was subsequently converted to an open-pit mine, its costs are not very low for mines on the Mesabi Range. The character of the ore was known, and for the merchantable ore it was not high in iron or very low in phosphorus—in other words, it was not of an unusually high Bessemer grade. The rate of royalty, however, was 20 cents a ton, which was less than the average rate of royalty for iron on the Mesabi Range. This low rate of royalty was undoubtedly a factor in determining the bonus price which was above the average either in total amount or per ton of ore.

Contemporary opinion in this ore district appears to have been that the price paid by the Deerings was a high one. Thus, Dwight E. Woodbridge, an expert mining engineer regularly reporting the news for the Lake ore districts to *The Iron Age*, in an article written for the issue of June 26, 1902, refers to the sale of the Hawkins "at a large price to the Deering Harvester Company." This statement

was based on an assumed tonnage of merchantable ore of 9,000,000 tons.¹

In the absence of some evidence, therefore, that the price paid by the Deering interests for this mine was distinctly lower than the going price of similar property on the Mesabi Range, the Bureau contends that this price is the best indication of the value at that time. That this price was not exceptionally low is shown by the following table, compiled partly from a statement prepared by Mr. Woodbridge for the Bureau in connection with its investigation of the Steel Industry, and partly from data published in the trade journals at that time.

TABLE 13.—BONUSES PAID FOR SPECIFIED ORE LEASEHOLDS ON THE MESABI RANGE IN 1902.

Mine.	Character of ore.		Estimated tonnage in deposit.	Cash bonus.	Bonus, cents per ton.	Royalty per ton.
	Per cent iron.	Per cent phosphorus.				
Hawkins ¹	58.00 to 50.00	0.043 to .050	9,000,000 to 15,000,000	\$525,000	5.8 3.5	\$0.20
Agnew.....	61.50	.050	3,500,000 to 4,516,000		4.3 3.3	
Albany.....	58.67	.071	4,945,000	150,000	3.0	.25
Troy.....	57.10	.039				
Crosby.....	56.00	(²)	2,490,000	(²)	³ 2.3	.20
Elizabeth.....	56.63	.070	11,800,000	350,000	3.0	.25
Prindle.....	59.48	.068	3,027,000	200,000	6.6	.25
Utica.....	60.00	.055	2,550,000	150,000	5.9	.25
Webb.....	58.08	.082	8,450,000	280,000	3.3	.25
Susquehanna.....			11,000,000	300,000	2.7	.25
Sect. 27; 58-20 ⁴			3,500,000	125,000	3.6	.25
Kinney.....	58.00	.079	7,000,000	160,000	2.3	(⁵)
Average.....			6,477,200 to 7,178,800	239,000	⁶ 3.7-3.3	⁷ .24

¹ Estimate in table is as of time of purchase, and does not include a very large tonnage of the ore low in iron.

² No limit stated.

³ Additional royalty of 7 cents for ore as found; equivalent to bonus of about 2.3 cents per ton.

⁴ No name given.

⁵ Not stated.

⁶ Not counting Crosby leasehold for which bonus is estimated.

⁷ Not counting Kinney leasehold for which royalty is not given.

It will be seen from this table that the character of the ore on the Hawkins property was by no means exceptional. In fact, it was distinctly lower in iron content than many of the mines shown in this list. The percentage of phosphorus was rather low, this increasing the value of the ore. The bonus per ton amounted to about 5.8 cents,

on the basis of a 9,000,000-ton deposit, which was distinctly higher than the average for the other mines in this group, namely, about $3\frac{1}{2}$ cents per ton. As already noted, this was undoubtedly due in part to the fact that the royalty on this mine was only 20 cents, whereas the average for the mines given in this group was 24 cents. Assuming that the deposit contained 15,000,000 tons of ore, the bonus averaged 3.5 cents per ton. These figures may be compared with the appraisal valuation of the equity adopted by the International Harvester Co. of $42\frac{1}{2}$ cents per ton, a valuation many times higher than the average bonus value at that time.

In the opinion of the Bureau, based on thorough study of ore values in connection with its investigation of the Steel Industry, the bonus payment of \$525,000 represented a high valuation for the property under the conditions prevailing at the time it was acquired by the Deering interests.

A former official of the International Harvester Co., who was in immediate charge of this property at that time, claimed, however, that before that company acquired the Hawkins it had been discovered that the deposit contained considerably more than 9,000,000 tons of ore. Evidently more ore could not have been developed than shown by the appraisal of Longyear and Silliman of 14,400,000 tons, which was made subsequently to its acquisition by the International Harvester Co. While the Bureau is disposed to regard the price paid by the Deerings as perhaps fully stating the value of the ore at the time it was acquired by the International Harvester Co., it arbitrarily added \$400,000 to this valuation in order to be certain that it did not undervalue it. Adding this \$400,000 to the price paid by the Deerings and also the cost of the improvements, etc., made by them as shown above, gives a total gross value of \$971,996.57.

In the appraisal, however, the obligations due for unpaid bonus, namely, \$350,000, are deducted, as these were outstanding, and were assumed by the International Harvester Co. This leaves a net value of \$621,996.57. Comparing this with the appraised value of \$5,770,000, it appears that there was an overvaluation of \$5,148,003.43.

The appraisal of the Agnew mine, according to the statement of the International Harvester Co., was made in a similar manner:

Tonnage determined at 6,250,000 tons by joint appraisal of E. J. Longyear and A. P. Silliman, and equity valued at 37.5 cents per ton.....	\$2, 343, 750
Less obligations assumed at date of purchase, as follows: One note dated Apr. 21, 1902, time one year, at 5 per cent, \$30,000; four notes for \$30,000 each, dated Apr. 21, 1902, and due in two, three, four, and five years, respectively, with interest at 5 per cent, \$120,000.....	150, 000
Balance.....	2, 193, 750

Apparently this estimate of the tonnage was made in October, 1905. In this case the leasehold was acquired under a royalty of 25 cents per ton, and the total bonus paid for the transfer of this leasehold was \$150,000, all payable in notes with interest at 5 per cent. This leasehold was also acquired in January, 1902, or about seven months before it was transferred to the International Harvester Co. As in the case of the Hawkins mine above, certain additional items shown in the appraisal of Jones, Caesar & Co. should also be considered. This appraisal showed that in addition to the bonus payment the following expenses had been incurred, namely, \$1,953.52 in connection with the lease, \$5,575 for advance royalties, and \$46,755.66 for surface improvements and equipment. Adding these items to the bonus gives a total cost of \$204,284.18.

It will be noted that the Agnew mine is included in Table 13 and that the average rate of royalty and the average bonus per ton on the lower estimate are both higher than the average for all mines listed in that table. As in the case of the Hawkins mine, the Bureau is of the opinion that the price paid by the Deerings was at a fair valuation of the property in 1902 and that this price plus the expenditure made by the Deering interests made a fair valuation of the property at the time it was acquired by the International Harvester Co. A similar claim was made by a former representative of the International Harvester Co. of the discovery of additional ore between the time of its purchase by the Deerings and the formation of that company, who states that at the date of the merger the ore deposit could be taken at 5,000,000 tons. On this basis the bonus paid would average just 3 cents per ton. For this reason, again, it could not be properly assumed that the equity per ton of ore had suddenly increased to $37\frac{1}{2}$ cents per ton as given in the appraisal. The Bureau is of the opinion that the original cost to the Deering company was approximately a fair measure of its value at the time of the merger. However, in order to be certain that it did not undervalue this ore, the Bureau arbitrarily added \$100,000 to the cost of the ore to the Deerings. This gives a total gross value of \$304,284.18. As in the case of the Hawkins, the purchase money obligations of \$150,000 assumed by the International Harvester Co. are deducted. This gives a net value for the Agnew leasehold of \$154,284.18, and indicates an overvaluation of \$2,039,465.82.

The total overvaluation in the case of these two leaseholds, therefore, was \$7,187,469.25.

Inasmuch as this extraordinary overvaluation apparently is nowhere else even approached in connection with other items of the appraisal, it requires some explanation. These properties were originally valued by G. W. Perkins, of J. P. Morgan & Co., according to express stipulation in the contract of July 28, 1902, between the Deering Harvester

Co. and W. C. Lane. (See p. 345.) The United States Steel Corporation, which was also organized by J. P. Morgan & Co., had been compelled to give the valuation of its property in a civil suit in New Jersey in July, 1902, or about a month before the International Harvester Co. was formed. In that proceeding the representatives of the Steel Corporation had tried to show that the value of Lake Superior ore was about \$1 per ton in the ground for the total holdings of the Steel Corporation, including both fee and leasehold properties.

Mr. Perkins, to whom was left the appraisal of these Deering ore properties, was also chairman of the finance committee of the Steel Corporation. Obviously, therefore, J. P. Morgan & Co. were in no position to oppose a very high valuation for this ore. It has been admitted by a representative of the International Harvester Co., indeed, that the McCormick company protested to J. P. Morgan & Co. against such a high valuation, but that they could get no abatement, although, as shown above, the valuation was many times as large as the actual cost to the Deering company only a few months before. The valuation finally used in the books of the International Harvester Co. was not adopted until after protracted disputes and after the stock had been entirely distributed.

The appraisal of other ore property amounted to only \$231,101.55, and while this was apparently considerably overvalued also, the amount in the aggregate was small, and the data with respect to it too indefinite to make it advisable to attempt a correction.

Attention is called to the fact that the overvaluation for ore property shown above, \$7,187,469.25, is not much less than the difference (\$7,382,082.68) between the book value of the International Harvester Co. and the original book value of the Deering company, but this is explained by the different treatment of the obligations (\$500,000) connected with such property, which were deducted from the book value of the International Harvester Co. and from the Bureau's valuation, but not from the book value of the Deering company.

The coal lands of the Deering company, on the other hand, do not appear to have been greatly overvalued, if at all. They were appraised by the International Harvester Co. as follows:

22,235 acres, at \$25 per acre, as appraised by C. P. Perin.	\$555, 875. 00
Less obligations assumed at date of purchase-----	416, 753. 40
Balance -----	139, 121. 60

The Bureau accepted this valuation.

The South Chicago Furnace Co. property consisted of 1,705 shares of stock in that company. This block of stock stood on the Deering company's books at \$285,875, which would be about \$168 per share. This stock was acquired at different dates from November, 1900, to

February, 1902. At the latter date 250 shares were purchased, at \$162.50 per share. The Deering company booked this stock at cost. The remaining 1,295 shares of this company were subsequently acquired in 1903 at \$400 per share, and on this basis the appraisal of \$682,000 was fixed. Inasmuch as the stock purchased only seven months before the merger cost less than the average value of the stock on the Deering company's books, it would appear that no increase over the Deering book value should be made. The valuation in this case, therefore, was placed at \$285,875, and the overvaluation was \$396,125.

The South Chicago steel plant was appraised at \$495,427.29, as of September 30, 1902, on the basis of the "approximate amount expended at that date." The books of the Deering company, as of February 1, 1903, carried this same item apparently at \$283,198.80. An appraisal of Jones, Caesar & Co., gives the book value of the Deering company for this property as of September 30, 1902, at \$363,209.67, of which \$225,000 was for real estate and the balance (\$138,209.67) was for construction expenses. The Bureau accepts this appraisal as the value of this property and finds therefore in this case an overvaluation of \$132,217.62.

Summing up, therefore, the criticism of the appraisal of the iron and coal lands and iron and steel plants, the Bureau finds that these were overvalued by \$7,715,811.87. The total appraised value of \$9,511,400.44 is thereby reduced to \$1,795,588.57, representing the Bureau's estimate of the value of this property.

TIMBER PROPERTY.—A marked difference appears also between the appraisal of the Deering timber property on the International Harvester Co.'s books, namely, \$1,560,436.36, and the value of the same property on the books of the Deering company, namely, \$275,567.88, a difference of \$1,284,868.48. Of this total appraised value of \$1,560,436.36, all but a small portion, namely, \$25,189.12, which was appraised at the value shown by the Deering company's books, related to certain timberlands in Missouri, which were booked by the International Harvester Co. at \$1,535,247.24. It is sufficient, therefore, to examine this valuation alone.

The basis on which this International Harvester Co. valuation was fixed was a report originally made sometime between 1905 and 1907.

In connection with this report the appraiser wrote the following letter:

CHICAGO, *February 4, 1907.*

Mr. F. R. GADD,

*International Harvester Company,
156 Wabash Ave., Chicago, Ill.*

DEAR SIR: Replying to your verbal request to furnish the approximate value of the International Company's holdings in Southeast Missouri, I have consulted all the papers which you sent me, also had

my man Mr. Gilchrist come here and discussed the matter with him. The summing up of the estimates and values of 61,623.22 acres in Dunklin County, Missouri, is as per sheet enclosed, \$1,644,264.45, or \$26.68 per acre. As I had to establish the present value also I enclose that sheet as well, showing \$2,146,908.52 or \$34.48 per acre, which I think the lands are worth today.

If not satisfactory and this is not just what you want, kindly indicate your wishes and I will attend to them promptly.

Yours very truly,

(Signed)

J. P. BRAYTON.

In this report the total acreage of timber was assumed at 61,623.22 acres, while the area was actually only 57,543 acres. The stand of timber was reckoned at 612,687,696 board feet, mostly of hardwood, with an average value per thousand feet of about \$2.68. The appraisal thus made gave a total value of \$1,644,264.45 for 1902. In fixing its book value, however, the International Harvester Co. reduced this amount proportionately to the actual acreage acquired, and entered it on its property account at \$1,535,247.24, as stated above. In a subsequent estimate of the value of the timber on this same tract (1909) made to the Bureau in connection with its investigation of the lumber industry, it was stated that there was little change in its character since it had been acquired, except that it had matured rapidly, while the total quantity of merchantable timber was 285,000,000 board feet; and, furthermore, the values placed on the timber were at a distinctly lower scale per thousand feet. Taking the stand of timber and values reported in 1909, gives an aggregate value for the timber on this tract of only \$505,000. This may be compared with the book value adopted by the International Harvester Co. of \$1,535,247.24, and shows an excess book value of no less than \$1,030,247.24. Only about 27,000,000 board feet had been cut since its acquisition, so that exhaustion was not an important factor in this case. This valuation, however, covers the larger-sized timber only, and there was a large stand of smaller size. The total quantity of timber not covered by the foregoing computation for 1909 amounted to only 180,000,000 board feet for trees between 10 and 16 inches in diameter, and was undoubtedly not worth more than one-half of the value of the much greater stand of the large timber at that time. The value of this same timber in 1902 was unquestionably much lower, as there were very marked advances in the value of timberlands in that region between 1902 and 1909. While the land on which the timber stood was not considered by the International Harvester Co. in computing the value of the timber in 1909, it was undoubtedly worth something in addition in 1909, especially on account of the improvements made in draining the land, etc. The data for 1909 show, however, that the timber itself was greatly overvalued in the appraisals adopted for 1902.

In order to fix the proper value of this timber property in 1902, it is much better to take the Deering book values as a preliminary basis. This value was \$250,378.76 for the Missouri property alone. The Deering interests acquired 39,566 acres, or 68.7 per cent of the total quantity, on August 17, 1899; and 14,935 acres, or 26 per cent, on November 17, 1899. The remainder, amounting to about 5 per cent, was acquired at various dates. The period between the purchase of the bulk of this timberland and its transfer to the International Harvester Co. was therefore about three years.

The Bureau, in connection with its lumber investigation, had occasion to study the conditions of stand and market prices of timber in this precise locality, and it does not appear from any evidence available that there was any extraordinary change in the values of such timber between 1899 and 1902. It is probable, on the other hand, that there was some increase, say, 25 to 50 per cent. In order to be on the safe side, however, the Bureau decided to allow an increase in value over the Deering book values of substantially 100 per cent, giving a maximum value to this timberland of \$500,000. The overvaluation in the appraisal of this property, therefore, is estimated at \$1,035,247.24.

That this timber property was overvalued was, indeed, admitted. Thus, the comptroller of the company, in a statement to the Bureau, said:

From subsequent developments in that region it must be admitted that the valuation placed upon the timberlands as of October 1, 1902, was somewhat high.

Furthermore, whereas in the case of other important properties several appraisers were usually employed, in the case of this timber property there was only one—a Mr. J. P. Brayton—who was himself extensively interested in Missouri timber properties.

The other timber property of the Deering company mentioned above was booked by the International Harvester Co. at the same figure at which it stood on the books of the Deering company, namely, \$25,189.12.

All of the Deering company's timber taken together, therefore, instead of being worth \$1,560,436.36, was overvalued by at least \$1,035,247.24, and a fair valuation may be taken at not more than \$525,189.12.

MISCELLANEOUS PROPERTY.—For this group of items, which include certain additions to plants, construction at Hamilton, Ontario, some Chicago real estate, plant of J. W. Mann & Co. in Canada, and a sawmill, the total appraisal value adopted was \$546,511.66. The corresponding properties were found on the Deering company books (excepting for J. W. Mann & Co., which was appraised at only \$34,532.68), and were booked at an aggregate value of \$356,773.01.

Adding the adopted appraised value of J. W. Mann & Co. to this amount would give only \$391,305.69. Two appraisals were made of the Mann property and of the sawmill, and the lower appraisal, which was not adopted, aggregated \$100,910.13, as against the adopted appraisal of \$131,715.47. In view of the general effort to overvalue these properties, the Bureau felt warranted in assuming the lower appraisal for these two. This was apparently about \$10,000 lower than the book values. The assumed overvaluation in this case is only a small amount, namely, \$30,805.34, and the total valuation adopted by the Bureau, \$515,706.32.

INVENTORY.—The Deering company book value of inventory for February 1, 1903 (including raw materials, work in progress, and finished products), was \$7,820,008.40 (instead of \$8,060,598.58, as shown in Table 11, on p. 108). This, however, does not include apparently any allowance for freight and duty on finished products shipped to local agents in various markets, which, of course, added to the value of such products an amount corresponding to such freight and duty. No item for such freight and duty could be found in the Deering company balance sheet or other data of book values, but may have been included as a credit to the accounts payable of agents. The Bureau therefore added to the Deering company book value of the inventory the amount of such freight and duty as shown by the appraisals, namely, \$240,590.18, giving the total shown in Table 11 of \$8,060,598.58.

The inventory was appraised at \$8,905,059.78, which was the value adopted by the International Harvester Co.

The value of inventories, as shown on the Deering company books, was for January 31, 1903, which was several months after the transfer and date of appraisal. As inventory amounts are liable to considerable seasonal variations, a comparison should not be made between them for the determination of overvaluation in the appraisals.

Complete inventory data were not furnished by the Deering company for September 30, 1902, but certain items were, and these were considerably lower than the appraisals adopted for the same items. Thus for finished products the book values of the Deering company were \$179,885.95 lower than the appraisal.

Another basis for criticising the appraisal value adopted is found in a valuation of the inventories made by Jones, Caesar & Co. in connection with the determination of the profits of the Deering company. The total amount of this appraisal was \$7,462,365.37, or \$1,442,694.41 less than the valuation adopted, but this appraisal did not include all the items and so can not be compared without the addition of these items. It did not include apparently large items for freight and duty paid, amounting to \$240,590.18, nor a large amount for hemp at Progreso (Yucatan), amounting to \$322,885.57,

besides several small items aggregating \$130,879.27. On the other hand, it did include an item for Australian inventory amounting to \$334,235.78, which apparently should be excluded to make it comparable with the appraisal. The total inventory value after making these adjustments appears to have been \$7,822,484.61. However, a comparison of the particular items shows that the appraisal adopted was invariably higher than this appraisal of Jones, Caesar & Co. Furthermore, the appraisal of Jones, Caesar & Co. was made apparently on a liberal basis, the terms being the same as those quoted above on page 106. Consequently, there was no proper allowance for the depreciation of finished machines. The Bureau made an allowance on this account in the manner described above, thereby reducing the value of this Deering inventory from \$7,822,484.61 to \$7,271,265.98. This differed from the appraised value adopted by the International Harvester Co. (\$8,905,059.78) by \$1,633,793.80, which was taken as the overvaluation in this case.

SUMMARY OF DEERING COMPANY VALUATION.—The valuations of the chief classes of property conveyed by the Deering company have been examined above, and certain amounts determined in each case as overvaluation. It is quite likely that the overvaluations were actually greater for some items than those fixed on by the Bureau. If, therefore, the amounts determined on as overvaluations by the Bureau are subtracted from the amounts fixed in the appraisals for each class of property, the resultant figure may be regarded as the value of such property of the Deering company in 1902. This is shown in the following table:

TABLE 14.—VALUATIONS BY THE INTERNATIONAL HARVESTER CO. OF THE PHYSICAL PROPERTIES TRANSFERRED TO IT BY THE DEERING HARVESTER CO. IN 1902, AND VALUATIONS ADOPTED BY THE BUREAU.

Item.	Valuation adopted by the International Harvester Co.	Estimate of value by Bureau.
Factory real estate.....	\$1,563,165.63	\$1,260,775.86
Factory buildings and machinery.....	5,523,041.88	5,070,274.73
Agency property.....	471,898.94	417,904.31
Ore, coal, iron, and steel.....	9,511,400.44	1,795,588.57
Timber property.....	1,560,436.36	525,189.12
Miscellaneous property.....	546,511.66	515,706.32
Inventory.....	8,905,059.78	7,271,265.98
Total.....	28,081,514.69	16,856,704.89

According to the Bureau's estimate, therefore, the book value adopted by the International Harvester Co. for the property conveyed by the Deering Co., namely, \$28,081,514.69, was an overvaluation to the extent of at least \$11,224,809.80, and the proper value

was \$16,856,704.89. The Deering company book value for these same properties, it should be remembered, was \$13,758,401.87, or \$3,098,303.02 lower than the value as estimated by the Bureau.

Section 4. Appraisals of the Plano, Champion, and Milwaukee companies.

PLANO AND CHAMPION APPRAISALS.—As has been already stated, the Bureau was unable to obtain from the representatives of the Plano and Champion companies any information as to the values of the properties conveyed by them as shown on the books of account prior to the merger. Appraised values as adopted by the International Harvester Co. in its property account have already been given (p. 96), namely, \$2,708,982.48 for the Plano company and \$3,824,251.45 for the Champion company, the aggregate amount (\$6,533,233.93) constituting less than 10 per cent of the total book value adopted by the International Harvester Co. for all the physical properties acquired.

For these two companies only one appraisal was made of the value of plants and other fixed property. In regard to inventories, however, separate appraisals were made by Jones, Caesar & Co. to determine the profits of these companies for the purpose of computing good will, and these were markedly lower than the appraisals adopted. In regard to these inventory items only, therefore, is it possible for the Bureau to make any revision of the valuations of the properties conveyed by these two companies. The appraised values of the Champion and Plano companies were as follows:

CHAMPION COMPANY.

Factory plant	\$1, 579, 196. 16
Chicago warehouse.....	233, 340. 35
Agency property	147, 727. 69
Inventory	1, 863, 987. 25
Total	3, 824, 251. 45

PLANO COMPANY.

Factory plant.....	\$967, 766. 96
Agency property	56, 570. 64
Chicago Malleable Castings Co. (investment)	62, 738. 35
Chicago, West Pullman & Southern Ry. Co. (investment)	25, 380. 51
Inventory	1, 596, 526. 02
Total	2, 708, 982. 48

As stated above, the only items which the Bureau is able to criticize in this case are those for inventories. The inventory made by Jones, Caesar & Co. for the purpose of determining good will was for the Champion company \$1,539,995.28, and for the Plano company

\$1,361,610.16. These inventories were apparently the book values of the inventories as they stood on the books of these two companies. In both these cases, as also for the McCormick and Deering book inventories, discussed above, it appears that no depreciation was made for finished machines. Like the McCormick and Deering inventories, they were subsequently greatly reduced on the books of the International Harvester Co. in order to bring them down to a "fair trading value." The Bureau, however, regards the reductions so made as excessive, and for the aggregate inventories of the four companies (\$22,730,650.31) allowed a depreciation of \$1,500,000, this reduction being prorated over the inventories of the four vendor companies. The gross value of the Champion inventory was taken at \$1,539,995.28, which became after application of depreciation (pro rata) \$1,431,478.08; in the same way the Plano inventory was reduced from \$1,361,610.16 to \$1,265,663.04. In consequence of these changes the total value of the property conveyed was reduced to \$2,378,119.50 for the Plano company and to \$3,391,742.28 for the Champion company. It is possible that if fuller information had been obtained regarding the values of the properties other than inventories conveyed by these two companies, additional overvaluations would have been found in the appraisals, and that consequently the total value of the properties of each of these concerns would have been considerably reduced.

MILWAUKEE APPRAISAL.—This company's business was turned over to the International Harvester Co. as a going concern at the book value of its net assets, namely, \$3,148,196.66. This valuation was determined from a balance sheet made up for this purpose, as follows:

ASSETS.		LIABILITIES.	
Plant property-----	\$1, 211, 292. 15	Bills payable-----	\$2, 694, 172. 63
Agency warehouse prop- erty-----	1, 779. 21	Audited vouchers-----	95, 203. 82
Inventories-----	1, 479, 013. 59	Unpaid commissions---	5, 477. 09
Agents' accounts-----	1, 928, 271. 78	Sundry liability ac- counts-----	4, 383. 61
Bills receivable-----	1, 302, 618. 52	Travelers-----	2, 990. 29
Contingent accounts---	18, 681. 32	Bills receivable contin- gent-----	95, 843. 52
Sundry asset accounts--	16, 845. 47	Agents-----	7, 714. 89
Cash-----	95, 480. 47		
	6, 053, 982. 51		2, 905, 785. 85
		Balance-----	3, 148, 196. 66
			6, 053, 982. 51

The Bureau has verified these figures from the original books of the Milwaukee Harvester Co., and is satisfied of their correctness.

There does not appear to be any good reason to reduce this value. Of this amount, however, \$148,196.66 was not included in the

appraisal of \$67,076,229.65 of property acquired for stock, but was paid for out of stock issued for working capital. This amount of \$148,196.66 therefore should not be considered in the comparison with appraised values adopted by the International Harvester Co. It should be noted further that this valuation is based on net assets and includes items of working capital not conveyed by the other companies (i. e., cash and receivables, from which payables must be deducted). Certain classes of property therefore were acquired from the Milwaukee company which were not comprised in those conveyed by the other companies originally taken into the combination.

Section 5. Total appraisal.

Although it does not affect the discussion of valuations here adopted, special reference is made to the fact that only after the International Harvester Co. had been doing business several years did it make up complete and authentic balance sheets, and in doing so made certain remarkable changes in the valuations of the inventories, wherein the values of the inventories, as of September 30, 1902, were reduced in the aggregate by more than seven million dollars, or considerably more than the reduction made above by the Bureau. These subsequent changes in the accounts are described in detail later. (See p. 199.) As already stated, the Bureau did not think that these changes made in the inventory were a proper basis for fixing the proper values in 1902, but a comparison of the appraisal of these inventories, the values to which they were subsequently reduced, and the values adopted by the Bureau is of interest.

TABLE 15.—COMPARISON OF APPRAISAL VALUES OF INVENTORIES OF FOUR VENDOR COMPANIES, AND VALUATIONS OF SAME INVENTORIES AS OF 1902 SUBSEQUENTLY USED BY THE INTERNATIONAL HARVESTER CO., WITH THE VALUATIONS ADOPTED BY THE BUREAU.

Company.	Appraisal.	Harvester Co.	Bureau.
McCormick.....	\$11,738,822.70	\$8,137,915.36	\$9,818,476.54
Deering.....	8,905,059.78	6,173,414.89	7,271,265.98
Champion.....	1,863,987.25	1,293,468.13	1,431,478.08
Plano.....	1,596,526.02	1,106,788.47	1,265,663.04
Four companies.....	24,104,395.75	16,711,586.85	19,786,883.64
Milwaukee.....	1,443,766.67	1,443,766.67	1,443,766.67
Total.....	25,548,162.42	18,155,353.52	21,230,650.31

The total value of the tangible properties for all these five companies, which was adopted by the International Harvester Co. in its property account, may be compared finally with the valuations which have been assigned to these properties by the Bureau, as described in the foregoing discussion. This comparison is given first according to the chief classes of property in the table following.

TABLE 16.—VALUATIONS OF THE INTERNATIONAL HARVESTER CO. OF THE PHYSICAL PROPERTIES TRANSFERRED TO IT BY THE FIVE PREDECESSOR COMPANIES IN 1902, AND VALUATIONS ADOPTED BY THE BUREAU, BY CHIEF CLASSES OF PROPERTY.¹

Item.	Harvester Co.	Bureau.	Excess of Harvester Co.
Factory real estate, buildings, and machinery.....	\$23,270,218.14	\$20,787,435.09	\$2,482,783.05
Agency property.....	2,249,882.33	2,173,539.56	76,342.77
Railroads.....	2,579,324.82	510,645.22	2,068,679.60
Ore, coal, iron, and steel.....	9,574,138.79	1,858,326.92	7,715,811.87
Timber.....	1,874,800.22	839,552.98	1,035,247.24
Miscellaneous ²	1,979,702.93	1,717,206.00	262,496.93
Inventories.....	25,548,162.42	21,230,650.31	4,317,512.11
Total.....	67,076,229.65	49,117,356.08	17,958,873.57

¹ No book values being available for the Champion and Plano companies, book values are not shown in this table.

² For Milwaukee company includes net working capital other than inventory after deducting \$148,196.66 for plant stock excess.

The total difference between the book value adopted by the International Harvester Co. and the proper value found by the Bureau was, therefore, \$17,958,873.57. Nearly half of this difference was due to overvaluation (\$7,187,469.25) of the Deering ore leaseholds in the Mesabi Range. The next largest item of difference was in the inventories of the four predecessor companies, namely, \$4,317,512.11. Other especially important items were the McCormick real estate, the McCormick railroad, and the Deering timber.

A comparison of the valuations of the International Harvester Co. with those adopted by the Bureau, grouped by companies, is also of interest; this is shown in the following table:

TABLE 17.—VALUATIONS OF THE INTERNATIONAL HARVESTER CO. OF THE PHYSICAL PROPERTIES TRANSFERRED TO IT BY THE FIVE PREDECESSOR COMPANIES IN 1902 AND VALUATIONS ADOPTED BY THE BUREAU, BY COMPANIES.

Company.	Valuation adopted by the International Harvester Co.	Estimate of value by Bureau.	Excess of Harvester Co.
McCormick.....	\$29,461,481.03	\$23,490,789.41	\$5,970,691.62
Deering.....	28,081,514.69	16,856,704.89	11,224,809.80
Plano.....	2,708,982.48	2,378,119.50	330,862.98
Champion.....	3,824,251.45	3,391,742.28	432,509.17
Milwaukee ¹	3,000,000.00	3,000,000.00	.....
Total.....	67,076,229.65	49,117,356.08	17,958,873.57

¹ Excluding \$148,196.66 Milwaukee excess paid for in "cash stock."

It appears, therefore, that the International Harvester Co. was not justified in claiming that the \$60,000,000 capital stock issued for property conveyed by the predecessor companies was fully paid up and more than paid up by the tangible property acquired (exclusive

of patents, good will, etc.), which was alleged to have been worth \$67,076,229.65, but that on the contrary stock was issued in excess of the value of such property, which was not worth more than \$49,117,356.08, or \$10,882,643.92 less than the stock issued against it. As a matter of fact, however, these companies conveyed other property than the tangible assets covered by the foregoing valuation, particularly good will, and it is desirable to consider the value of this good will also before coming to any conclusion as to the extent to which stock was issued in excess of the property acquired. (See pp. 128-133.)

Section 6. Distribution of "plant stock" issued for property.

Against the appraisal of \$67,076,229.65 for tangible property conveyed to it, and for promoters' services, the International Harvester Co. issued \$60,000,000 of stock, as already stated. The distribution of this stock to the several interests which formed the combination is of considerable interest in connection with the question of the relative values of the property, and also, perhaps, in connection with the broader purposes of the combination. As some stock went to the bankers for their expenses and services in promoting the combination, the amount of stock received by the predecessor companies was less than their respective appraised values on this account, as well as for the reason that the appraisals were greater than the total stock issued for property. The allotment of the \$60,000,000 of stock which was stated in the reports of the company to have been issued for the property conveyed to it, but which, as has just been stated, was also issued in part to promoters, is shown in the following table:

TABLE 18.—COMPARISON OF THE APPRAISED VALUES ADOPTED BY THE INTERNATIONAL HARVESTER CO. FOR THE PHYSICAL PROPERTY ACQUIRED IN 1902, WITH THE VALUES ESTIMATED BY THE BUREAU AND THE STOCK ISSUED THEREFOR BY COMPANIES.

Company.	Appraisal adopted by the International Harvester Co.	Value as estimated by Bureau.	Stock issued for property and services.	Excess of Harvester Co. appraisal over stock issued.	Excess of stock issued over Bureau's valuation.
Deering.....	\$28,081,514.69	\$16,856,704.89	\$21,314,554.64	\$6,766,960.05	\$4,457,849.75
McCormick.....	29,461,481.03	23,490,789.41	26,262,614.00	3,198,967.03	2,771,724.69
Plano.....	2,708,982.48	2,378,119.50	2,268,603.09	440,379.39	¹ 109,516.41
Champion.....	3,824,251.45	3,391,742.28	3,447,185.91	377,065.54	55,443.63
Milwaukee ²	3,000,000.00	3,000,000.00	3,000,000.00	.....	.....
Total.....	67,076,229.65	49,117,356.08	56,292,857.64	10,783,372.01	7,175,501.66
J. P. Morgan & Co.....	.....	.....	2,957,142.86	³ 2,957,142.86	2,957,142.86
Expense fund.....	.....	.....	749,999.60	³ 749,999.60	749,999.60
Total.....	67,076,229.65	49,117,356.08	60,000,000.00	7,076,229.65	10,882,643.92

¹ Stock issue less than estimated value.

² Excluding \$148,196.66 Milwaukee excess paid for in "cash stock."

³ Deduction.

The foregoing table shows that the International Harvester Co. issued stock for the property to an amount less than the appraised value, both for the property as a whole and also for the properties conveyed by the several predecessor companies (except the Milwaukee company). On the other hand, it issued stock in excess of the Bureau's estimated value of the property conveyed to the company as a whole and also, in particular, for the McCormick and Deering companies severally. That the stock issued for the Plano company was less than the value of the property estimated by the Bureau is probably due to the fact, already explained, that the Bureau did not have adequate data for revising the values for this company except with respect to the inventories. While the stock issued for the Champion properties was greater than the Bureau's estimate, the latter was also very likely too high for the same reasons as for the Plano company. While the McCormick and Deering interests were, perhaps, willing to treat these small companies on substantially the same basis in this respect in order to get them into the combination, yet these large companies were so much more powerful and profitable that it is probable the small companies had, at least, quite as strong a motive to enter the combination as the large companies.

Stock was issued for property and to the promoters up to 89.5 per cent of the total appraisal, and for the four predecessor companies which organized the combination the percentages were as follows:

Deering.....	75.9
McCormick.....	89.1
Plano.....	83.7
Champion.....	90.1

For the Milwaukee company's property, stock was issued up to the full appraised value, which also appears to have been the real value.

The bankers who promoted the combination received par value in stock for the appraised value of the Milwaukee company, namely, \$3,000,000, which seems, as already stated, to have been the correct value of the property transferred. They also received \$2,957,142.86 of stock for their services as promoters, all expenses incident to the formation of the combination being covered by another specific allotment of \$749,999.50.

These large promotion expenses appear to have been allowed to a considerable extent for the very elaborate appraisals which were made, and also, undoubtedly, for fees for legal counsel.

The amount¹ allowed to the promoters—\$2,957,142.86—which did not correspond to any property conveyed or expenses incurred, would be justified from a commercial standpoint only on two grounds: (1) that the mere merger of these companies increased their value,

¹ See p. 85.

or (2) that a close alliance with this powerful banking interest was of immense value to the combination.

So far as "merger value" is concerned, it might arise either from increased economy and efficiency produced by a combination, or by commercial advantages resulting from the establishment of a "near monopoly." The economy and efficiency produced by combination, if any was really expected, did not materialize in the early years of the combination. Some might have been reasonably expected, perhaps, particularly from a centralization of the selling organization, but this was not the result. The commercial advantages to be obtained from the elimination of competition and the establishment of a "near monopoly" were, in the opinion of the Bureau, not only the predominant motive for the combination, but also the factor from which the greatest "merger value" might reasonably be expected. Disregarding the question of the propriety or legality of the combination, the Bureau is of the opinion that this fee of \$2,957,142.86 was excessive, even from a commercial standpoint.

Section 7. Value of good will and other intangible property acquired.

The original contracts of July 28, 1902, described above (p. 78), provide not only that certain tangible property should be conveyed, but also all trade-marks, patents, licenses, good will, and similar intangible property collectively referred to as "Patents, good will, etc." The following provision was made for the appraisal of such property:

The value of the patents and good will shall, for the purpose of this contract, be a sum equal to the net profits of the vendor during the two years ending November 30, 1902, as ascertained in the manner hereinafter provided, plus 10 per cent. thereof; and to such amount shall be added the value of the name, standing in the trade, stability of business, organization, trade, custom, etc., of the vendor as a going concern, which value shall be fixed by J. P. Morgan or George W. Perkins in his sole discretion.

These values were to be determined in the first place by appraisal of the net earnings in the manner stated, which was purely a question for accountants to determine. In addition thereto, J. P. Morgan (or George W. Perkins) was empowered to add such additional amounts thereto as he saw fit, apparently with the intention of valuing not something additional, but rather to give a more complete and correct value than could be obtained simply by an abstract rule. The appraisal of patents, good will, etc., was made by the accountants in the manner prescribed, but there is no information as to any further value of these items having been ascertained by J. P. Morgan or George W. Perkins. Furthermore, the value of the patents and good will so appraised was never adopted by the International

Harvester Co. in its accounts, nor any value assigned therefor in its statements of assets as originally acquired.

Since, however, it has been shown that the tangible property acquired was not equal to the value at which it was booked by the International Harvester Co., and that the "plant stock" issued therefor was in excess of its real value, it is proper to consider the real value of the patents, good will, etc., in order to determine whether such value existed, after all, in an amount equal to the capital stock actually issued in excess of tangible property acquired. The Bureau, however, does not thereby intend to commit itself to the theory that it is necessarily proper to issue stock for good will. The directors of the International Harvester Co. themselves did not include good will among their assets, as shown in their general books of account, according to a resolution made on December 22, 1906, namely:

that in the first balance sheet of the company there be excluded from the aggregate value of the assets all allowance for good will.¹

The Bureau takes the position that for at least two of the companies merged in the International Harvester Co. there was undoubtedly good-will value of large amount. The McCormick and Deering companies especially were very successful and very profitable concerns, and they had enjoyed generally an expanding trade. These facts alone, however, while necessary to the existence of good will (at least in the case of long-established concerns), would not be sufficient to indicate that there was good will in an important amount. There are great differences in respect to good will between different kinds of business. The most important difference, probably, is that between companies, on the one hand, which sell a staple product which is bought and sold under its staple name without respect to the producer, and companies, on the other hand, which sell an article under a trade name which is always bought with the knowledge either of the name of the particular producer or of the brand name under which the article is sold. The latter kind of article is generally advertised under its trade name, and if the business is successful and expanding it has a wide custom, of which the concern making it can not be quickly deprived in the ordinary course of trade, even by more efficient competitors. The harvesting-machine industry belongs preeminently to this latter class. The binder, for example, is rarely, if ever, sold without reference to the maker or trade name, such as "McCormick" or "Deering." It is an article which requires the frequent replacement of broken or worn-out parts, and these must be bought with reference to the particular brand of binder used and generally from the company making it. Furthermore, each machine has its peculiarities, and persons accustomed to

¹ See p. 197 for further reference to the first balance sheets of the company.

operating one brand of binder can generally handle it better than a different brand to which they are not accustomed. In fact, it is frequently found that the practice of using a particular brand of binder is more or less a fixed tradition in certain families and to some degree tends to be more or less prevalent in particular localities through long use there. Consequently, there is no doubt that the successful and long-established makers of harvesting machines tend to have a valuable custom.

On the other hand, it should be considered that general conditions of trade may undergo such changes that a business once profitable may become comparatively unprofitable. The opportunities for successful business operation may in time be pretty well exhausted, either because the needs of consumers are so well supplied for a long time ahead that demand slackens or because of other changes in the trade. Again, good will based on trade name and custom may be lost to some extent if for any special reason the article of a certain maker acquires suddenly an unfavorable notoriety. In this class of conditions there is no doubt that the so-called antitrust sentiment is an important example.

Taking the evidence as a whole, however, the Bureau, as stated above, is of the opinion that there was a large value in the good will of the McCormick and Deering companies, and probably some good-will value also for each of the other three concerns.

So far as patents, licenses, etc., are concerned, it is not believed that the rights and properties of this sort which were conveyed had a large value. In the first place, the basic patents for binders, mowers, and rakes, which were the chief kinds of machines then made, had all expired before 1902. Consequently, the McCormick or Deering binder, for example, could be very closely imitated by anyone who wished to enter that business without infringing any patent rights. In the second place, the book value of such patents, as shown by the accounts of the McCormick and Deering companies, was comparatively small. Thus, the McCormick balance sheet for September 30, 1902, showed an item of "patents" among its assets which was set down at \$354,249.39, while for the Deering company's balance sheet for the year ending January 31, 1903, the same item of assets was booked at only \$250,000.

The method provided for the appraisal of patents, good will, etc., contemplated that the value of all these items should be measured together on the basis of past earning capacity. A separate consideration of the value of the patents, therefore, is unnecessary.

While it is not necessarily difficult to decide whether good-will value exists or not, there is no question that the determination of the amount of good will is something upon which a very wide variation of opinion is possible. Although, as already stated, past earning

capacity does not necessarily indicate the existence of good will, yet where good will is conceded to exist such earning power may be a convenient method of determining the relative amount for different companies in the same line of business.

Where good will is regarded as having a high value, it would seem that the net earnings ought to show a high rate on the investment, at least for concerns which have a well-established trade. It is important, therefore, to consider what the rates of earnings were just prior to the merger on the investment in these companies. Unfortunately no data are available as to the net assets of the Plano and Champion concerns. The following statement, therefore, gives for the McCormick, Deering, and Milwaukee concerns only the necessary data, namely, the net assets, net earnings, and rate of net profit for 1902. This statement is based on the balance sheets and profit and loss statements of the McCormick, Deering, and Milwaukee companies at the end of the 1902 season and not on the statements of net profit made by the accountants for the purpose of the appraisal of good will (cf. Table 19 and p. 132).

Company.	Net assets.	Net earnings.	Per cent profit.
McCormick.....	\$43,805,203.34	\$5,125,565.25	11.7
Deering.....	23,420,259.16	4,183,940.93	17.9
Milwaukee.....	3,229,366.46	355,674.56	11.0

The net assets shown in the above statement include much property besides the physical property shown in Table 18.

Considering that the harvesting-machine industry was a distinctly competitive one before the merger in 1902, the rate of profit earned by the McCormick and Milwaukee companies in 1902, namely, 11.7 and 11.0 per cent, respectively, must be regarded as distinctly high, while the rate earned by the Deering company in the same year, namely, 17.9 per cent, was extremely large.

The question remains whether the same rule for measuring good will should be applied to each of these concerns, irrespective of the marked differences shown in the rate of earnings. This question, however, would involve a general consideration of the whole problem of good-will value, and as it would not lead to any definite results it can not be taken up here.

The provisions of the contracts of July 28, 1902, respecting the appraisal of the good will of the companies here under consideration provided that such good will should be computed as equal to the sum of the net profits for the two years ending September 30, 1902, plus 10 per cent thereof. This method of determining the value of good will from earning capacity is a common one, especially among English companies. From such information as the Bureau possesses

regarding this practice, it appears that for various lines of business which are less conspicuous probably for good-will value than the harvesting-machine industry it is often the practice to fix it at an amount equal to several years' profit.

However, the method of determining the net profits was specifically prescribed in such a manner as to give a much larger amount of profit than that shown by the companies' profit and loss accounts. That is, certain kinds of income and expenditure were not included in the computation, as, for example, interest on accounts and bills receivable and interest on certain accounts payable, and cost of collecting receivables. Furthermore, although the above-mentioned contracts provided that depreciation should be deducted from profit, whether on account of plant, materials of manufacture, or of bills and accounts receivable, yet in the computation made of good-will value by the accountants such depreciation was not deducted. The final net profit as fixed by the accounts (which has been shown above on p. 131) was not used, therefore, in this appraisal of good will, but instead a considerably higher amount of profit, with a corresponding enhancement of the estimated value of good will.

The amount of the net profits for 1901 and 1902, respectively, together with 10 per cent of the total for these two years, and the aggregate of these amounts for each company as determined by the accountants employed for this purpose, are shown in the following table:

TABLE 19.—VALUE OF THE GOOD WILL OF THE FOUR VENDOR COMPANIES IN 1902 BASED ON PROFITS AS COMPUTED BY THE ACCOUNTANTS.

Company.	1901	1902	10 per cent.	Total.
Champion.....	\$299,183.80	\$370,517.40	\$66,970.12	\$736,671.32
Deering.....	3,130,269.22	4,401,578.03	753,184.72	8,285,031.97
McCormick.....	5,185,191.71	5,401,270.61	1,058,646.23	11,645,108.55
Plano.....	59,430.86	110,329.39	16,976.02	186,736.27
Total.....	8,674,075.59	10,283,695.43	1,895,777.09	20,853,548.11

It will be seen from the foregoing table that the profits of the McCormick and Deering companies, thus computed, were very large for both 1901 and 1902, while the profits of the Plano and Champion companies were comparatively small. Corresponding differences occurred, of course, in the computed value of the good will, that for the McCormick company being \$11,645,108.55 and that for the Deering company \$8,285,031.97. The total amount of the good will so ascertained for these four companies was \$20,853,548.11. If, instead of the profits used in the foregoing table, the net profits as shown above on p. 131, had been used, the aggregate value of the good will on the basis of two years' profit plus 10 per cent would have amounted to

\$18,192,457.07. The whole question of the true value of good will is, however, a question of judgment, and not of a rule of computation. It should be considered, further, that no account is taken here of the good will of the Milwaukee company, which on the same basis of computation of the last two years' profit plus 10 per cent would be \$485,490.31. Adding this to that computed above for the four companies (\$20,853,548.11) would give a grand total for good will of \$21,339,038.42.

As shown above, the physical property conveyed (exclusive of patents, good will, etc.) was estimated by the Bureau as not worth more than \$49,117,356.08 at the time of the merger in 1902, or \$10,882,643.92 less than the \$60,000,000 stock which was issued for such property and for promoters' services. If, however, the good will is assumed to have had something even approaching its computed value, it appears that the deficiency in tangible property was fully made up by the value of the good will.

The Bureau is not inclined to set a definite value on the good will, nor even to admit that stock should be issued for good will. However, as the foregoing data tend to show that the tangible property plus the estimated value of the good will may have been equal to the \$60,000,000 issued for the property conveyed (including promoters' services), it will be of interest to show what rate the net earnings would indicate, assuming that the capital stock issued was fully paid for. The rates of earnings of the International Harvester Co. are, therefore, stated in two ways: (1) As shown in the company's own accounts, and (2) as revised by the Bureau. (See pp. 211 and 238.)

Section 8. Cash stock subscription.

According to the plan of the combination already described, the capital stock of the International Harvester Co. was fixed at a total of \$120,000,000, of which one-half, or \$60,000,000, was to be subscribed for in cash or cash equivalent. Each of the several vendor companies agreed to furnish a stipulated portion of this amount, while the balance was to be found by William C. Lane. It has also been shown that the plan contemplated the acceptance of guaranteed bills receivable in lieu of cash, at the option of the vendor companies, for such stipulated amounts. The companies selling harvesting machines did a large part of their business on long terms of credit, accepting payment in agents' bills or accounts receivable or in farmers' notes. Each of the vendor companies had large quantities of such obligations, most of which bore interest. Where such receivables were used in lieu of cash, they were assigned to the International Harvester Co., and the amount realized thereon, including interest paid, was credited to their stock subscriptions. On the other hand, the companies assigning them were charged with the cost of collection and

also with interest on stock subscriptions due and not paid. The date of payment for the cash stock subscription was fixed at August 15, 1902, and interest at the rate of 6 per cent was charged against subscriptions paid thereafter.

The advantage of this arrangement, both to the vendor companies and to the International Harvester Co., is obvious. The vendor companies procured the collection of these receivables by a highly organized collection agency, while the International Harvester Co. had the advantage of a creditor in dealing with agents and farmers in the sale of its products.

The total \$60,000,000 cash stock subscription of the International Harvester Co. is accounted for by the company as follows:

Champion interests.....	\$1,000,000.00
Deering interests.....	19,965,613.21
McCormick interests.....	24,886,190.13
Plano interests.....	4,000,000.00
W. C. Lane, vendor.....	10,000,000.00
Total issued for cash.....	59,851,803.34
Add amount issued to discharge additional purchase price of assets of Milwaukee Harvester Co.....	148,196.66
Total.....	60,000,000.00

The circumstances of the subscriptions of individual companies, whether in cash or receivables, varied considerably, as well as the amounts charged for collection and interest. The amounts which would be realized and the collection and interest charges could not be foretold exactly; hence there was sometimes a balance repayable to the vendor companies. The Champion company paid wholly in cash. The general results of these transactions are summarized as follows:

TABLE 20.—METHOD OF PAYMENT OF CASH STOCK SUBSCRIPTION, INCLUDING INTEREST ON UNPAID SUBSCRIPTIONS FROM AUG. 15, 1902, AS SHOWN BY THE STATEMENTS OF THE INTERNATIONAL HARVESTER CO.

Item.	Deering.	McCormick.	Plano.	Champion.
Cash paid in.....	\$1,300,000.00	\$6,375,000.00	\$5,095,626.33	\$1,027,500.00
Collected from receivables.....	22,339,132.27	25,125,034.01	1,923,231.47	.....
Gross amount received by International Harvester Co.....	23,639,132.27	31,500,034.01	7,018,857.80	1,027,500.00
Charges for collection and interest.....	3,483,426.08	6,505,145.52	3,018,857.80	27,500.00
Net amount credited by International Harvester Co.....	20,155,706.19	24,994,888.49	4,000,000.00	1,000,000.00
Amount credited to stock subscription.	19,965,613.21	24,886,190.13	4,000,000.00	1,000,000.00
Balance repaid.....	190,092.98	108,698.36	.....	.....

¹ Including in some cases obligations liquidated by the International Harvester Co.

The original contracts of the vendor companies with William C. Lane contemplated that the said companies should furnish only

\$41,000,000 of the cash or working capital of the International Harvester Co., whereas, as a matter of fact, as shown by the foregoing statement, they furnished nearly \$9,000,000 more (see p. 84), namely, a total of \$49,851,803. The subscriptions originally stipulated and the subscriptions actually made on this account were therefore as follows:

TABLE 21.—COMPARISON OF ORIGINAL AND ULTIMATE DISTRIBUTION OF CASH STOCK SUBSCRIPTIONS.

Company.	Originally stipulated.	Actually subscribed.	Difference.
Deering.....	\$16,000,000	\$19,965,613.21	\$3,965,613.21
McCormick.....	20,000,000	24,886,190.13	4,886,190.13
Plano.....	4,000,000	4,000,000.00	.....
Champion.....	1,000,000	1,000,000.00	.....
William C. Lane.....	¹ 19,000,000	² 10,148,196.66	8,851,803.34
Total.....	60,000,000	60,000,000.00	.....

¹ Lane in selling the properties agreed to furnish \$60,000,000 cash capital (see p. 80) and is therefore charged with the balance.

² Including Milwaukee excess appraisal of \$148,196.66.

The actual cash subscription was less than the \$60,000,000 required, by \$148,196.66. The reason for this is the one already noted elsewhere (p. 85), namely, that the Milwaukee Harvester Co. showed a valuation as ultimately determined in excess of the \$3,000,000 originally computed by the amount of \$148,196.66. This excess valuation was covered by the issue of an equal amount of stock at par from the \$60,000,000 of stock issued for working capital.

The methods by which these payments of cash stock subscriptions were made were complicated, and the methods of accounting for them were extraordinarily loose and unbusinesslike. However, after a careful examination of the books and a careful checking up of the total receipts and disbursements for the two years following the merger, during which time the cash stock subscription was completed, the Bureau came to the conclusion that the total amount subscribed had been actually paid in in the amounts stated above. This conclusion was confirmed also by an examination of papers and correspondence left by G. W. Perkins in the office of J. P. Morgan & Co., to which the Bureau obtained access.

CHAPTER IV.

SUBSEQUENT DEVELOPMENT OF THE INTERNATIONAL HARVESTER CO.

Section 1. Introductory.

The organization of the International Harvester Co. as it existed at the beginning has been described already. It consisted essentially of a combination of five of the largest competing producers of harvesting machines in the United States. The products of these companies, moreover, were almost exclusively harvesting machines and twine. These companies were merged into a single corporation—the International Harvester Co. (New Jersey)—which sold its products to a subsidiary, the International Harvester Co. of America. Besides the America company, there were at first only a few unimportant subsidiary companies.

From the time when the International Harvester Co. was first organized, in 1902, to the present time (1913), there has occurred a large development in its business in several important ways, and particularly in (1) the acquisition of competing companies; (2) the acquisition of companies making noncompeting lines; (3) the manufacture of new lines at old plants; (4) the construction of new factories for both old and new lines at home and abroad; and (5) the development of production and manufacture of raw materials. With this extension of its business, there grew up a more elaborate organization, particularly in respect to the establishment of numerous subsidiary companies, at home and abroad, to manufacture and sell its various products.

In spite of the development of new competition, especially at the end of this period, the International Harvester Co. has continued to maintain a monopolistic position in the harvesting-machine industry. Its domination of the agricultural-implement trade, as a whole, was greatly increased by the acquisition of new lines of manufacture. In these new lines, however, it has not attained the practically monopolistic control that it has always had in the manufacture of harvesting machines.

Section 2. Acquisition of competing concerns.

The most marked feature of the development of the International Harvester Co. in the first few years of its existence was its secret acquisition of certain companies which were competitors in the manufacture of harvesting machines.

D. M. OSBORNE & Co.—Chief among the competing companies acquired by the International Harvester Co. was D. M. Osborne & Co., the most important competitor not included in the original combination. This company was an old family concern. Although harvesting machines were its chief product, it had also an important line of tillage implements, and a binder twine and cordage works operated by a subcompany (Columbian Cordage Co.). Its location at Auburn, in central New York, was a favorable one for the export trade, and it enjoyed a large business in foreign markets. The Osborne company had an outstanding capital stock of \$300,000, and stock scrip of \$690,000. The Columbian Cordage Co. had a capital stock of \$300,000. Neither company had mortgage encumbrances or bonded debt, but the Osborne company had a floating debt of \$2,500,000.

Almost immediately after its organization, the International Harvester Co. took steps looking to the acquisition of this company. B. A. Kennedy, one of the experts of the International Harvester Co., was sent to Auburn to examine the plant and business. He made a report by letter to Charles Deering under date of September 18, 1902, giving a long description of the works, the rates of wages in effect, the production of machines, the character of the agents, etc., and a second report, under date of September 20, 1902, giving an estimate of the value of the plant. A few months afterwards arrangements were made to acquire this business.

The Osborne company was acquired by virtue of a contract dated January 15, 1903, between Thomas M. Osborne and Edwin D. Metcalf, vendors (two of the chief stockholders), and the International Harvester Co. The chief features of this agreement were substantially as follows: Osborne and Metcalf agreed to turn over the stock and stock scrip of the Osborne company and the stock of the Columbian Cordage Co. to the International Harvester Co. at a price of \$3,200,000 plus the actual cost of the inventory on hand (including materials and finished products). The vendors were allowed to retain the following property, namely, (1) all receivables and cash; (2) all realty not used in the manufacturing business, and certain warehouses; and (3) the cordage-making plant, as distinguished from the binder-twine plant, of the Columbian Cordage Co.

It was contemplated that the International Harvester Co. would be put in possession of at least 95 per cent of the securities above mentioned before January 31, 1903, and it was agreed that imme-

diately after acquiring such securities it was to have appointed on the board of directors such persons as it might designate. The International Harvester Co. undertook to collect the Osborne receivables and to turn over the proceeds, less cost of collection, to the vendors. It was also agreed that the vendors should manage the Osborne company until certain payments were made, and, on the other hand, that the International Harvester Co. would furnish the necessary working capital for carrying on its regular business operations. Finally, a very important feature of the agreement was the provision that neither Thomas M. Osborne nor Edwin D. Metcalf, the two chief active stockholders of the company, should otherwise engage or become interested in the manufacture of agricultural implements or binder twine for a period of ten years in the United States (except Arizona and New Mexico), Australia, South America, or Europe (except Holland and Belgium).

The price ultimately paid for the Osborne company's plant property and warehouses was apparently \$3,365,000.¹

None of the stockholders of the Osborne company received any stock in the International Harvester Co. under the terms of the agreement.

For nearly two years after the date of this contract the direction of the business of the Osborne company remained in the hands of Thomas M. Osborne and Edwin D. Metcalf, and down to December, 1904, it claimed to be entirely independent of the International Harvester Co. (See p. 296.) The reason for this arrangement alleged by the International Harvester Co. was that it was to enable the vendors to collect their bills receivable more conveniently. It may be noted that after the International Harvester Co.'s control was openly admitted, Edwin D. Metcalf continued as a local representative of the International Harvester Co.

In acquiring this company, the International Harvester Co. absorbed its largest competitor, and one which was especially well located to compete with it in Eastern and foreign markets in the sale of harvesting machines and binder twine. The output of harvesting machines and other implements of the Osborne plant for the year 1903 was as follows:

Binders.....	10, 495	Tedders.....	9, 065
Mowers.....	19, 955	Corn binders.....	2, 033
Reapers.....	4, 486	Harrows ²	52, 371
Rakes.....	21, 303	Cultivators.....	11, 122

¹ The value of the Osborne company's investment is partly indicated by the following data: According to a balance sheet of December 31, 1903, the plant was booked at \$3,453,589.20 and the inventory at \$3,609,662.10. When the International Harvester Co. formally transferred the Osborne property in 1905, the plant was entered at \$3,389,905.04, with the following statement: "To transfer from Auburn company's Suspense account the value of the fixed property of the D. M. Osborne & Co. and the Columbian Cordage Co., acquired by purchase Jan. 3, 1905."

² Including harrow sections.

For harvesting machines, the production of this company in 1903 compares favorably with the production of either the Plano or Milwaukee companies in 1902, as shown above (p. 92). Besides these harvesting machines and tillage implements, there was a considerable production of binder twine.

Although its production of tillage implements was an important feature of its business, it was quite subordinate to that of harvesting machines. The factory cost of the harvesting machines in 1903 was \$1,669,617.96, compared with \$412,137.75 for tillage implements, and this may be regarded as a fair measure of the relative importance of these two groups of products. The International Harvester Co. claimed that it acquired the Osborne company largely in order to get its line of tillage implements and because of the foreign business, but it is evident that the important feature of this acquisition was the absorption of a competitor in the production of harvesting machines and binder twine.

MINNIE HARVESTER CO.—This company had a plant for the manufacture of harvesting machines and binder twine at St. Paul, Minn., and was controlled through stock ownership by the American Grass Twine Co. The Minnie Harvester Co. was a successor to the Walter A. Wood Harvester Co. (see p. 48), of St. Paul, having bought its properties at a receiver's sale, the Wood company, in turn, being a successor of the Minneapolis Harvester Co. The Minnie Harvester Co. became financially embarrassed in 1903, and on November 30, 1903, certain stockholders of the International Harvester Co. acquired control of its stock by purchase from the American Grass Twine Co. This stock was apparently purchased for these parties by E. M. Cravath, for \$945,000. The net assets of the Minnie Harvester Co. on September 30, 1905, are reported at \$842,900.71.

The Minnie Harvester Co. was not a large manufacturer of harvesting machines at the time it was acquired. It was operated as an independent during 1904, for the alleged purpose of enabling the American Grass Twine Co. to collect its own receivables and those of the Minnie Harvester Co. As the property was held by stock control it is not clear what interest the American Grass Twine Co. had in the collection of the Minnie Harvester Co.'s receivables.

On September 30, 1905, the property of the Minnie Harvester Co. was conveyed to a newly organized subsidiary company of the International Harvester Co., namely, the International Flax Twine Co., which wound up the production of harvesting machines and repair parts, and used the plant for making flax twine.¹

THE AULTMAN-MILLER CO.—The Aultman-Miller Co. was a long-established concern, having a plant for the manufacture of harvest-

¹ In connection with the Minnie Harvester Co. the International Harvester Co. acquired the Northern Malleable Iron Co. This was sold in 1906 to one F. J. Ottis for \$207,000.

ing machines and twine at Akron, Ohio; its machines, moreover, had a considerable reputation. This company became bankrupt in 1903, and was bought from the trustees in bankruptcy in July, 1903, by one Judge Vincent, who had business relations with some of the chief stockholders of the International Harvester Co., who financed this purchase. Judge Vincent reorganized this concern as The Aultman & Miller Buckeye Co., and some of the principal stockholders in the International Harvester Co. became the controlling factors in the new company.

It was operated as an independent concern under the management of a former employee of the International Harvester Co., but its business consisted chiefly in furnishing repair parts for the machines of the old Aultman-Miller Co., and in the manufacture of binder twine. The plant and property of this company was conveyed to the International Harvester Co. in the autumn of 1905, and while the manufacture of binder twine was continued, the manufacture of harvesting machines was dropped and autovehicles made instead.

In a letter prepared by C. S. Funk (now general manager of the International Harvester Co.) for Harold F. McCormick, dated October 15, 1903, the value of the plant property was estimated at \$555,928, of which \$91,061 was for the twine mill.

This company was recognized as having a valuable trade and good will, the following statements in relation thereto appearing in the above-mentioned letter:

The Buckeye selling organization will market a certain number of Buckeye machines each season by reason of the prestige of the Buckeye machines and on account of the standing that a good many of the dealers have in the country. They have always been able to hold some strong dealers and for this reason there is some natural demand for Buckeye machines; and their local selling organization is so generally scattered over the trade that there is a local influence and prestige connected with the sale of the Buckeye machines which is almost entirely lacking in the Acme line.

After the plant of this company was acquired by the International Harvester Co., the manufacture of these Buckeye machines was dropped entirely.

KEYSTONE Co.—This company was organized March 14, 1903, with a capital stock of \$300,000, and had a plant for the manufacture of harvesting machines and hay tools at Sterling, Ill. The harvesting machines of this company are alleged by the International Harvester Co. to have been failures, but some authorities assert that the machines made were excellent, and the company was in the hands of two of the most expert men in the business, so that it is at least an open question whether they might not have made a success of these

machines. The hay-tool line was admitted to have been a very good one.

At any rate, in the autumn of 1904, certain stockholders of the International Harvester Co. acquired control of the stock of the Keystone Co., and continued to operate it as an independent company until the following year. On September 6, 1905, the property of this company was transferred to the International Harvester Co. Some of the features of the Keystone harvesting machines were used by the International Harvester Co. in its other machines. The plant was used for a time for the manufacture of binders, mowers, hay tools, etc., although ultimately the manufacture of binders and mowers was discontinued.

The cost of the properties thus taken over by the International Harvester Co. was apparently \$510,546.63, of which \$350,000 was for the plant and fixed property.

GENERAL CHARACTER OF THESE ACQUISITIONS.—These four companies, namely, D. M. Osborne & Co., the Minnie Harvester Co., the Aultman-Miller Co., and the Keystone Co., were all real competitors of the International Harvester Co. in the manufacture of harvesting machines or binder twine, and in the opinion of the Bureau were acquired largely, if not almost wholly, for the purpose of eliminating such competition. A policy of secret control was adopted in each case, and there is little doubt that one motive was to obtain an advantage in competition through the operation of these companies as bogus independents, a method of unfair competition frequently employed by other monopolistic combinations both before and after this time. (See p. 296.)

Ultimately, however, all of the plants so acquired were transferred directly to the International Harvester Co. except that of the Minnie Harvester Co., which was transferred to an acknowledged subsidiary company of the International Harvester Co. (The International Flax Twine Co.). These changes were all made in 1905 and seemed to indicate a change in the general policy of the company in this respect. In this connection it is proper to point out that antimonopoly proceedings were threatened in several States at this time.

It may be noted, also, that the International Harvester Co. has sometimes placed large orders for twine with outside manufacturers.

Section 3. Acquisition of noncompeting lines.

The acquisitions by the International Harvester Co. of noncompeting lines of farm implements were of much less significance from the standpoint of the intrinsic importance of the companies. These acquisitions were of two kinds—(1) companies or plants producing

noncompeting lines; (2) contracts for the marketing of noncompeting lines made by other manufacturers.

In 1904 certain stockholders of the International Harvester Co. acquired control of the capital stock of the Weber Wagon Co., of Chicago, and in 1905 the property of this company was conveyed to the International Harvester Co. This concern was of considerable importance in the manufacture of farm wagons.

In 1905 the International Harvester Co. made a contract to sell the output of steel wagon gears (i. e., frame and wheels, but not the box) made by the Bettendorf Axle Co., of Davenport, Iowa.

In this manner the International Harvester Co. became a factor in the farm-wagon trade, and through a rapid expansion of operations has become one of the most important producers in this line at the present time.

In 1906 the International Harvester Co. purchased from the J. S. Kemp Manufacturing Co. its plant for the manufacture of manure spreaders located at Newark Valley, N. Y., and leased for a period of years another manure-spreader plant of the Kemp concern at Waterloo, Iowa. The cost of the real estate, buildings, equipment, patents, etc., of the Newark Valley plant, as shown by the property account of the International Harvester Co. was \$104,127.26. The lease of the Waterloo plant expired in 1908 and was not renewed. The International Harvester Co. thereby became a larger factor in this branch of the farm-implement business, and now occupies a commanding position therein.

About 1909 the International Harvester Co. made a contract with the Parlin & Orendorff Co., of Canton, Ill., manufacturers of plows, etc., to sell its plows in Canadian markets, in order to give it a more complete line of goods for that market.

In 1910 it still further strengthened its position in the same markets by making a contract for the marketing of the plows of the Oliver Chilled Plow Co., of South Bend, Ind. It also has a one-fifth interest in the Canadian subsidiary of this company, the Oliver Chilled Plow Works of Canada (Ltd.), at Hamilton, Ontario.

The International Harvester Co. does not sell these plows, however, in the markets of the United States where each of these plow companies has already a well-developed selling organization.

In 1912 the International Harvester Co. made an arrangement with the American Seeding Machine Co. for the sale of the output of seeding machines from its Richmond, Ind., plant. This is one of the largest seeding-machine factories in the United States. The International Harvester Co. already had a small, but apparently undeveloped, line of seeding machines of its own manufacture. The American Seeding Machine Co., with which this arrangement was made, is itself a combination of the chief producers of seeding ma-

chines in the United States. (See p. 52.) Already in 1904 the International Harvester Co. had negotiated with the American Seeding Machine Co. for the sale of its total output, and a 10-year selling contract was proposed by the former, but nothing further was done at that time. Prior to this, namely, in 1903, G. W. Perkins made an examination of the affairs of the then pending seeding-machine combination of seven leading companies (the American Seeding Machine Co.). The finance committee of the International Harvester Co. decided, on his recommendation, that it was not desirable for it to take an interest therein, because the stock issues proposed, namely, \$10,000,000 common and \$10,000,000 preferred, were regarded as excessive.

Section 4. Refusal of the International Harvester Co. to acquire other competing concerns.

While, as above shown, the International Harvester Co. during 1903 and 1904 pursued the tactics of acquiring secret control of certain competing companies, it is important to note that the acquisition of several other competing concerns was considered by the International Harvester Co., but not consummated, while certain other concerns made overtures to the International Harvester Co. to sell out, which were declined by that company. Among these were several of the principal independent makers of harvesting machines, besides other companies engaged in the manufacture of various kinds of farm implements.

Almost immediately after the organization of the International Harvester Co., namely, on August 19, 1902, negotiations were entered into with the Massey-Harris Co. (Ltd.), of Toronto, Canada, evidently for the purpose of bringing that concern into the combination. The Massey-Harris company was probably the largest manufacturer of harvesting machines in North America not included in the original combination; it appears that the desirability of including it was considered by the promoters before the merger was organized. (See p. 73.) After protracted negotiations, the International Harvester Co. decided not to take it into the combination, due, apparently, to disagreement as to terms. Even before the negotiations were dropped, the International Harvester Co. took steps for the enlargement of a plant already commenced for manufacturing harvesting machines at Hamilton, Canada, where it now has a large factory.

The acquisition of the Acme Harvester Co., of Peoria, Ill., was also seriously considered by the International Harvester Co., and a careful examination made of its property and business as early as 1903. The production of this company was small as compared with any of the companies which originally went into the International Harvester Co., but it had besides the ordinary harvesting machines a well-known

line of headers and a line of hay tools, including stackers and sweep rakes. On December 22, 1904, the executive committee of the International Harvester Co. recorded the decision "that further negotiations between this Company and the Acme Harvester Company be discontinued for the present, as this Company does not care to purchase either the assets of the Acme company or any interest therein." In spite of this decision, however, it appears that one of the directors of the International Harvester Co. (W. H. Jones) suggested later that it might be desirable to purchase a small block of Acme stock, and accordingly Alex. Legge (now assistant general manager of the International Harvester Co.) was directed on August 21, 1905, to see what could be done about it. The Bureau has no information, however, that the International Harvester Co. ever acquired any of the Acme company's stock, and it is explicitly denied by the officers of the company that it has done so.

Some negotiations appear to have been had with the Walter A. Wood Mowing & Reaping Machine Co., of Hoosick Falls, N. Y., which progressed, apparently, far enough at least to ascertain the terms on which it could be obtained, but the combination finally decided not to acquire it.

The International Harvester Co. also considered the advisability of acquiring the Adriance-Platt company, of Poughkeepsie, N. Y., an offer having been made, apparently, by that company, but this offer was finally declined.

Certain parties, namely, C. H. Kirkham and Henry E. Marble, claiming to have an option on the Johnston Harvester Co., of Batavia, N. Y., made an offer in 1905 to sell their option to the International Harvester Co. for \$1,500,000, but this offer was declined by the combination.

These five companies—the Massey-Harris Co., the Acme Harvester Co., the Walter A. Wood company, the Adriance-Platt company, and the Johnston Harvester Co.—were all competitors of the International Harvester Co. in the manufacture of harvesting machines. None of them, except the Massey-Harris company, which was a Canadian concern doing business chiefly in Canada and other foreign countries, was equal in importance to the Osborne company, the first of the independent harvester companies acquired by the International Harvester Co. The total sales of the four of these companies which were located in the United States were very small, however, in comparison to those of the International Harvester Co. In 1911 they amounted to less than one-sixth of the harvesting machine sales of the International Harvester Co.

Outside of the concerns above mentioned, the most important propositions apparently considered or declined related to the following companies.

In 1903 a proposition to take over the thrasher business of the O. S. Kelley Co., of Springfield, Ohio, was declined, and in 1905 a similar attitude was taken with respect to a proposition to acquire an interest in the Northwestern Thresher Co., of Stillwater, Minn.

In 1904, and again in 1906, suggestions looking to the acquisition of P. P. Mast & Co., of Springfield, Ohio, manufacturers of seeders, were disapproved.

Suggestions looking to the acquisition of the Studebaker Bros. Manufacturing Co., of South Bend, Ind., which was undoubtedly the largest manufacturer of farm wagons in the United States, were turned down in 1905, and a proposition looking to the acquisition of the Woodhull Carriage Works, of Dayton, Ohio, was declined in the same year, and also one with respect to the Winona Wagon Co., of Winona, Minn., in 1906.

In 1906, the executive committee of the International Harvester Co. voted to drop negotiations for the purchase of the plant of Whitman & Barnes at West Pullman, Ill.

In 1906 the International Harvester Co. declined a suggestion made by Edwin D. Metcalf looking to the acquisition of the Standard Harrow Co., of Utica, N. Y.

Section 5. Development of new lines of manufacture at old and new plants in the United States.

In addition to the new lines acquired by purchases of the concerns referred to in section 3 the International Harvester Co. began to develop the manufacture of several new lines of machines. Some of these it arranged to produce at the existing plants originally or subsequently acquired by the combination, while in other cases it constructed new plants especially for that purpose.

Thus, at the Milwaukee plant the manufacture of harvesting machines was discontinued after a short time, the Milwaukee machines being made at the McCormick plant instead. The Milwaukee plant was then turned into a factory for gasoline engines, tractors, and cream separators, three very important new lines of the International Harvester Co. The gasoline engines were first produced in 1904, cream separators in 1905, and tractors in 1909.

The manufacture of harvesting machines was discontinued, likewise, at the Plano plant, the Plano brands being thenceforward made at the Deering plant. The Plano plant was used thereafter for the manufacture of manure spreaders and wagons. The manufacture of spreaders was begun at this plant in 1905, and of wagons in 1906.

The Champion plant was continued as a harvesting-machine factory, but to these products were added manure spreaders and a small

output of seeders and hay tools. The hay tools were first produced in 1903, seeders in 1906, and spreaders in 1908.

The manufacture of harvesting machines was also discontinued at the St. Paul plant (Minnie Harvester Co.), as already stated, this plant being turned over to the International Flax Twine Co., for the manufacture of flax twine, in 1906. Recently the manufacture of flax twine was also discontinued, as it proved to be a commercial failure, and ordinary binder twine from manila or sisal was substituted.

The McCormick and Deering plants were continued as factories for harvesting machines (including corn-harvesting machines) and also binder twine. As indicated above, these plants also took over the manufacture of several other brands of harvesting machines.

The Osborne plant continued to manufacture the same lines it produced at the time it was acquired, namely, harvesting machines (including corn-harvesting machines), tillage implements, and twine.

At the Akron plant (acquired from The Aultman-Miller Co.) the manufacture of Buckeye harvesting machines was discontinued, and the plant was used for the manufacture of autowagons, which were first produced in 1907 or 1908. The twine plant at Akron continued to be used for the manufacture of twine for some time, but after 1910 the twine production was discontinued at that place.

The Keystone plant was used, as already stated, for the manufacture of hay tools, although some binders, mowers, corn shellers, and tillage implements were also made there.

The only important new plant for the manufacture of agricultural implements which was constructed by the International Harvester Co. in the United States was the tractor works near the McCormick plant, in Chicago, where a very large factory was erected, and production commenced in 1910.

At the other plants acquired by the International Harvester Co. subsequent to its organization, the same machines were produced as at the time of acquisition, i. e., wagons at the Weber plant and manure spreaders at the Newark Valley and Waterloo works.

Section 6. Acquisition and construction of manufacturing plants in foreign countries.

The International Harvester Co. has acquired several factories in foreign countries, in some cases by purchase and remodeling of old plants and in others by the construction of new ones.

As already stated, when negotiations to acquire the Massey-Harris Co. (Ltd.), failed, the International Harvester Co., in February, 1903, proceeded with the organization of a Canadian company and the erection of a large factory at Hamilton, in Canada. The com-

pany was called the International Harvester Co. of Canada, and was organized under the laws of Ontario, Canada, September 21, 1903, with a capital stock of \$1,000,000. The factory was constructed to produce harvesting machines, to which tillage implements, seeders, manure spreaders, etc., were also added. Quite recently several additional small plants were also acquired near Hamilton, in Canada, namely, at Paris (Paris Plow Co.) in 1911, for the manufacture of tillage implements and manure spreaders; at Chatham (Chatham Wagon Co.) in 1910, for the manufacture of wagons; and at Peterboro a factory was leased for the manufacture of twine.

In 1904 the International Harvester Co. purchased a factory of moderate size at Norrköping, Sweden, where it undertook the manufacture of grass-harvesting machines. In 1908 the board of directors of the International Harvester Co. approved plans to establish factories in France, Germany, and Russia, and these plans were later put into effect. By 1910 two new factories of considerable size had been partially completed, one at Croix, in France, and the other at Neuss, in Germany, also for the manufacture of grass-harvesting machines. About the beginning of 1910 the International Harvester Co. acquired an old air-brake plant at Lubertzy, near Moscow, and converted it into a factory of considerable capacity for the manufacture of reapers, lobogreikas (a Russian style of reaper), grass-harvesting machines, and gasoline engines.

These plants are operated by foreign companies organized in the countries in which the factories are located (see p. 165), except the Russian factory, which is operated by a company organized in the State of Maine and authorized to do business in Russia by special decree.

The construction of these foreign plants for the manufacture of agricultural implements is a very important feature of the policy of the International Harvester Co. The principal reason for this is found, of course, in the protective commercial policy of foreign countries, which makes it in some cases more profitable to manufacture such machines in the country of sale than to export them thereto from the United States. In Russia this was done in the expectation that high protective duties would be levied. The Russian Government, however, finally decided not to levy protective duties on such implements, but instead to pay bounties to the local manufacturers. The International Harvester Co., therefore, receives bounties on the machines it produces in Russia, but pays no duties on those manufactured in the United States which are exported to Russia. The manufacture of agricultural implements by the International Harvester Co. in foreign countries tends, of course, to diminish their exportation from the United States, although the total

exports of the International Harvester Co. have greatly increased to almost all foreign countries, including apparently those in which it has factories, although in most cases these factories have been in operation only a short time. The American competitors of the International Harvester Co. who do not have foreign factories, but make all of their implements in the United States, are in this respect doubtless at a considerable disadvantage as compared with the International Harvester Co. in such foreign countries. The International Harvester Co. claims, however, that it does not engage in foreign manufacture except as it is impelled thereto by commercial conditions. In particular, it may be noted that it has not yet attempted to make binders in foreign countries except in Canada.

Section 7. Development of raw-material properties and plants.

The iron-ore leasehold properties acquired by the International Harvester Co., particularly the Hawkins and Agnew mines, on the Mesabi Range, were developed and operated for the production of ore, and also, to some extent, the Illinois mine, on the Baraboo Range. The iron and steel plants at Chicago acquired with other Deering properties (South Chicago Furnace Co.¹ and South Chicago Steel Works) were enlarged and improved for the production of iron castings, steel bars, etc.

These ore properties and iron and steel plants were conveyed in 1907 to the Wisconsin Steel Co., a subsidiary of the International Harvester Co. This company was organized August 18, 1905, under the laws of Wisconsin with a capital stock of \$1,000,000 to operate these properties. Some of the less valuable iron-ore leaseholds of the Wisconsin Steel Co. were subsequently given up, namely, the Victoria and Lot 3 mines. In 1911 the Wisconsin Steel Co. acquired a vessel of 10,000 tons for carrying its ore down the Lakes. To this company, also, were conveyed certain coal lands in Kentucky acquired through the Deerings, which remained undeveloped until about 1911, when a coke plant was built there.

The timberlands, timber rights, and sawmills acquired through the Deerings and McCormicks were conveyed, in 1907, to another newly organized subsidiary company of the International Harvester Co., the Wisconsin Lumber Co., which operates them for the production of pole stock and various other wood materials used in the manufacture of the machines and implements produced by the International Harvester Co. This company was organized August 18, 1905, under the laws of Wisconsin with a capital of \$250,000. Considerable additional timber property, especially in Mississippi and

¹ Stock of the South Chicago Furnace Co., not acquired at the time of the merger, namely, 1,295 shares, was purchased in 1903 at a price of \$400 per share.

Arkansas, which was subsequently acquired by the International Harvester Co., is owned and operated by the Wisconsin Lumber Co.

The development of these raw-material properties is an important feature of the operations of the International Harvester Co., constituting what is now generally known in the manufacturing business as "integration of industry." The International Harvester Co. was thus able to furnish itself with supplies of its chief raw materials at production cost, instead of buying such materials in the open market. The advantage of this arrangement and its relation to the cost of production will be more particularly noted later (p. 267).

A very important raw material used by the International Harvester Co. in the manufacture of binder twine is fiber—both manila and sisal. Although the International Harvester Co. does not engage in the production of such raw material, it has special facilities for obtaining it in the chief regions of production, namely, the Philippine Islands and Yucatan.

When the International Harvester Co. took over the McCormick plant and property the McCormicks had an interest in the firm of H. W. Peabody & Co., dealers in manila fiber, but this was sold at that time. Later, in 1904, the business of a firm called Macleod & Co. was purchased for \$190,000 to handle this business in the Philippines. In this connection the following resolution of the executive committee of the International Harvester Co. of September 28, 1905, may be noted:

Resolved, That this Company decline to give its consent to Macleod & Company entering into an agreement with any other dealers or exporters at Manila and elsewhere to regulate the purchase and sale of manila fiber.

Sisal fiber, the product of the henequen plant, which grows almost exclusively in Yucatan, is used to an even greater extent than manila fiber.

Shortly after the organization of the International Harvester Co., namely, in 1903, a proposition was made by one R. G. Ward looking to the purchase and consolidation of the railroads in Yucatan by the International Harvester Co., with a view to obtaining a control of the sisal-fiber trade. In connection with this proposition, the following excerpts from a letter from C. H. McCormick to G. W. Perkins, under date of October 29, 1903, are of interest:

The whole proposition may be divided into two parts and should be investigated and considered independently from both standpoints, first, the railway proposition; second, the hemp proposition.

Railway.—It seems to us that if Mr. Ward's statements are true, simply from the railway standpoint this proposition should

be attractive to a syndicate of investors who would be satisfied with from seven to ten per cent for their investment. To put together a lot of incomplete and poorly equipped railways which are now earning five and one-half per cent, and to control the trade of the country by the monopoly of the railways combined, would appear to be a good railway syndicate proposition. To demonstrate this fact a railway expert should go to make this investigation and report to the managers of the syndicate. The first question on this point occurs as to whether the Government would look favorably upon these railways being owned and managed by American capital. The amount involved for a railway plan of this kind is comparatively small, being about \$6,500,000 for the control of the present system, with one other line still to be secured.

Hemp.—From the hemp standpoint the proposition is very attractive to us, provided always that Mr. Ward's statements can be verified. If the control of this railway is in friendly hands working with us, we can obtain our hemp at a much less figure than we are now paying, and we can practically control the production of sisal hemp. This will be worth a large sum to this Company.

In a postscript to this letter Mr. McCormick writes:

It is needless for me to say that if the railway syndicate is organized to work with the I. H. Co. on this matter, such a syndicate should be at least dominated by the influence of the I. H. Co.

Although the International Harvester Co. went to some expense to investigate this proposition, nothing further seems to have been done to accomplish it.

The International Harvester Co. has, however, very close relations apparently with the concern of Avelino Montes, S. en C.,¹ which is the "dominant factor" in the sisal trade.

The International Harvester Co. also invested some money in 1910 in an enterprise called the Salango Export Co., which is interested in the development of the fiber trade in Ecuador.

Section 8. Capacity and output of the International Harvester Co. plants in 1911.

IMPLEMENT PLANTS.—The annual reports of the International Harvester Co. furnish statements of the capacities of the various manufacturing plants which show the widespread activities of the company. This information for the year 1911 is tabulated below.

¹ Sociedad en comandita.

TABLE 22.—IMPLEMENT MANUFACTURING PLANTS OF THE INTERNATIONAL HARVESTER CO. AND RATED CAPACITY IN 1911 FOR MACHINES SPECIFIED.

Domestic.

Factory.	Location.	Employees.	Capacity. ¹
Akron.....	Akron, Ohio.....	1,250	4,000 autowagons and commercial cars.
Champion.....	Springfield, Ohio.....	1,800	85,000 harvesting machines, seeding machines, hay presses, and manure spreaders.
Deering.....	Chicago, Ill.....	6,500	300,000 binders, reapers, mowers, rakes, drills, and corn machines. 31,000 tons twine.
Keystone.....	Rock Falls, Ill.....	600	82,500 corn shellers, harrows, hay loaders, and side-delivery rakes.
McCormick.....	Chicago, Ill.....	8,500	375,000 binders, reapers, mowers, rakes, and corn machines. 33,000 tons twine.
Milwaukee.....	Milwaukee, Wis.....	5,000	75,000 gasoline engines, cream separators, and tractors.
Newark Valley.....	Newark Valley, N. Y.....	170	7,000 manure spreaders.
Osborne.....	Auburn, N. Y.....	2,700	275,000 harvesting machines and tillage implements. 15,000 tons twine.
Plano.....	West Pullman, Ill.....	1,300	60,000 manure spreaders and wagons.
Tractor.....	Chicago, Ill.....	1,250	3,000 tractors and kerosene engines.
Weber.....	Auburn Park, Ill.....	700	45,000 wagons.
St. Paul.....	St. Paul, Minn.....	200	2,500 tons twine.

Foreign.

Chatham.....	Chatham, Canada.....	300	18,000 wagons.
Hamilton.....	Hamilton, Canada.....	2,500	150,000 harvesting machines, seeding machines, tillage implements, and manure spreaders.
Paris.....	Paris, Canada.....	250	20,000 tillage implements and manure spreaders.
Peterboro.....	Peterboro, Canada.....	150	3,000 tons twine.
Croix.....	Croix, France.....	700	47,500 mowers, rakes, and tedders.
Lubertzy.....	(Near) Moscow, Russia.....	2,000	22,500 gas engines, lobogreikas, mowers, and reapers.
Neuss.....	Neuss, Germany.....	700	45,000 mowers, rakes, and tedders. 3,600 tons twine.
Norrköping.....	Norrköping, Sweden.....	300	30,000 mowers and rakes.

¹ The figures of capacity are given as in the company's reports. Where several kinds of machines are grouped, these figures obviously have little significance.

Some of the plants in foreign countries have been so recently established that their production in 1911 was very much less than their rated capacity. For this reason and also because the rated capacity does not distinguish between different kinds of machines, it is important to give the actual production of the chief kinds of machines made. This is shown for the year 1911 in the tables following.

TABLE 23.—PRODUCTION OF CHIEF KINDS OF MACHINES AT DOMESTIC IMPLEMENT MANUFACTURING PLANTS OF THE INTERNATIONAL HARVESTER CO. IN 1911.

Machines, etc.	Cham- pion.	Deer- ing.	Key- stone.	McCor- mick.	Osborne.	Milwau- kee.	Plano.	Other plants.	Total.
Grain binders	4,411	62,884	.....	71,070	8,616	.....	.....	.....	146,981
Reapers	2,446	29,607	.....	26,813	5,246	.....	.....	.....	64,112
Headers	500	4,704	.....	4,370	.....	.....	.....	.....	9,574
Strippers .....	.....	1,099	.....	.....	.....	.....	.....	.....	1,099
Mowers	12,672	89,255	.....	112,344	27,014	.....	.....	.....	241,285
Rakes	15,039	50,902	5,075	69,175	24,055	.....	.....	.....	164,246
Tedders	10,993	.....	.....	.....	4,426	.....	.....	.....	15,419
Hay stackers .....	.....	.....	.....	1,824	.....	.....	.....	.....	1,824
Hay pressers	5,533	744	.....	.....	.....	.....	.....	.....	6,277
Hay loaders .....	.....	.....	11,258	.....	.....	.....	.....	.....	11,258
Corn binders .....	.....	18,414	.....	23,780	1,543	.....	.....	.....	43,737
Shredders .....	.....	659	.....	1,080	.....	.....	.....	.....	1,739
Shellers .....	.....	.....	10,216	.....	.....	.....	.....	.....	10,216
Planters	1,803	.....	.....	.....	.....	.....	200	.....	2,003
Pickers .....	.....	1,567	.....	129	.....	.....	.....	.....	1,696
Shockers .....	.....	41	.....	143	.....	.....	.....	.....	184
Cultivators .....	.....	.....	.....	.....	42,629	.....	.....	.....	42,629
Harrows:	.....	.....	.....	.....	.....	.....	.....	.....	.....
Disk .....	.....	.....	31,530	.....	51,803	.....	.....	.....	83,333
Peg tooth .....	.....	.....	41,280	.....	59,139	.....	.....	.....	100,419
Spring tooth .....	.....	.....	.....	.....	48,188	.....	.....	.....	48,188
Seeders	1,234	.....	.....	.....	.....	.....	.....	.....	1,234
Drills .....	.....	3,227	.....	.....	.....	.....	.....	.....	3,227
Gasoline engines .....	.....	.....	.....	.....	.....	35,155	.....	.....	35,155
Tractors .....	.....	.....	.....	.....	.....	1,883	.....	1,537	2,420
Autovehicles .....	.....	.....	.....	.....	.....	.....	.....	13,158	3,158
Wagons and gears .....	.....	.....	.....	.....	.....	.....	23,762	42,698	66,460
Manure spreaders	12,989	.....	.....	.....	.....	.....	22,683	45,431	41,103
Cream separators .....	.....	.....	.....	.....	.....	26,977	.....	.....	26,977

¹ Produced at the Tractor plant.³ Produced at the Weber plant.² All produced at the Akron plant.⁴ Produced at the Newark Valley plant.

TABLE 24.—PRODUCTION OF CHIEF KINDS OF MACHINES AT FOREIGN IMPLEMENT MANUFACTURING PLANTS OF THE INTERNATIONAL HARVESTER CO. IN 1911.

Machines, etc.	Chat- bam, Canada.	Hamil- ton, Can- ada.	Paris, Canada.	Croix, France.	Neuss, Ger- many.	Lubert- zy, Rus- sia.	Norr- köping, Sweden.	Total.
Grain binders	17,099	.....	.....	.....	.....	.....	17,099
Mowers	18,273	.....	9,763	11,901	.....	13,279	53,216
Rakes	14,039	.....	2,595	8,577	.....	12,891	38,102
Tedders	460	.....	2,109	1,000	.....	.....	3,569
Cultivators	4,095	.....	.....	.....	.....	.....	4,095
Harrows:
Disk	14	13,174	.....	.....	.....	.....	13,188
Peg tooth	40,459	.....	.....	.....	.....	.....	40,459
Spring tooth	1,320	.....	.....	.....	.....	.....	1,320
Land rollers and pack- ers	7,122	.....	.....	.....	.....	.....	7,122
Seeders	261	.....	.....	.....	.....	.....	261
Drills	16,645	.....	.....	.....	.....	.....	16,645
Wagons	7,544	.....	.....	.....	.....	.....	.....	7,544
Manure spreaders	2,993	.....	.....	.....	.....	2,993
Engines	241	.....	241

The foregoing tables do not show the production of twine. Twine was produced at four domestic factories of the International Harvester Co., while a considerable quantity was also produced under a conversion contract at an outside factory at Portland, Oreg. A small quantity of twine was produced at one foreign plant, namely, Neuss, in Germany. The production of binder twine in 1911 was as follows:

	Pounds.
McCormick plant.....	65, 338, 816
Deering plant.....	60, 173, 414
Osborne plant.....	33, 869, 156
St. Paul plant.....	¹ 2, 102, 855
Portland plant.....	2, 025, 800
Neuss plant.....	359, 791
Total.....	163, 868, 832

The actual production of twine from the McCormick, Deering, and Osborne plants was nearly the same as the rated capacity. The twine was all made from manila, sisal, or other standard binder-twine fiber, except at the St. Paul factory, which made flax twine. The production of flax twine has since then been abandoned at the St. Paul plant.

In addition to the above data for the implement factories, the following facts as to the capacity of the chief raw-material companies are of interest.

ORE MINES.—There are three iron-ore mines (leaseholds), the location and rated capacities of which are as follows:

Mine.	Location.	Term of lease.	Acreage.	Annual capacity.
		Years.		Tons.
Agnew.....	Hibbing, Minn.....	50	40	200,000
Hawkins.....	Nashauk, Minn.....	30	160	600,000
Illinois.....	North Freedom, Wis.....	50	240	100,000

These figures of capacity are probably quite arbitrary. The actual production of iron ore in 1911 aggregated about 400,000 tons.

COAL AND COKE PROPERTY.—The coal lands embrace 6,555 acres, located at Benham, in Harlan County, Ky. There is one mine with a stated capacity of 300,000 tons per annum. The coke plant is at same place, and has 300 beehive ovens, with a stated capacity of 150,000 tons of coke per annum.

IRON AND STEEL WORKS.—The iron and steel works are located at South Chicago, and occupy 118.4 acres. The average number of employees was reported as 1,500. The iron and steel plant had a

¹ Excluding 1,455,672 pounds of flax rope,

stated capacity of 360,000 tons of pig iron, 300,000 tons of crude steel, and 260,000 tons of finished rolled products (bars).

TIMBERLANDS AND SAWMILLS.—The timber properties consist of three tracts of hardwood timber, as follows: 59,000 acres of timberland at Deering, Mo., with a sawmill of 15,000,000 feet b. m. annual capacity; 22,000 acres of timberland at Valley Park, Miss., not yet under exploitation; and timber rights on a considerable tract near Huttig, Ark., with a sawmill of 18,000,000 feet b. m. annual capacity.

The actual production of lumber in 1911 was about 15,650,000 feet b. m., or less than half the stated capacity of the two sawmills.

Section 9. Industrial railways of the International Harvester Co.

With the manufacturing property acquired through the original merger in 1902, the International Harvester Co. obtained three industrial railroads connected with the manufacturing plants.

The McCormick plant, as already shown, included the Illinois Northern Railway, a short line which connected the McCormick plant and certain other industrial concerns with several railroad lines entering Chicago. This railroad company was incorporated April 1, 1901, in Illinois, and had a capital stock of \$500,000, owned entirely by the McCormick interests.

The Plano Manufacturing Co. had a three-fourths interest in a short industrial railroad known as the Chicago, West Pullman & Southern Railway Co., one-half directly and one-fourth through a subsidiary, the Chicago Malleable Castings Co. In 1904 the International Harvester Co. bought the remaining one-fourth from the Whitman & Barnes Manufacturing Co. This industrial road apparently served other manufacturing plants besides the Plano plant. It was incorporated in Illinois on February 5, 1900, and had a capital stock of \$50,000.

The Deerings also had an industrial railroad, connected with the steel works which, just after the merger, namely, on December 12, 1902, was incorporated in Illinois under the name of the Calumet & Southeastern Railroad Co. On October 28, 1909, this railroad was consolidated with the Plano railroad, mentioned above, under the title of the Chicago, West Pullman & Southern Railroad Co., the capital stock being fixed at \$400,000.

With the acquisition of the Osborne plant in 1903, the International Harvester Co. obtained an industrial railroad serving that plant, known as the Owasco River Railway, which was incorporated in New York on June 2, 1881, and which had a capital stock of \$30,000.

The Deerings had commenced the construction of a logging railroad in connection with timber property in Missouri. This was incorporated under the laws of Missouri on June 24, 1903, with a

capital stock of \$100,000. This railroad was developed to do a local freight and passenger business as a common carrier.

At the Champion works the International Harvester Co. had a few feet of track inside the yard of the plant which, on February 16, 1904, was incorporated under the laws of Ohio as the Lagonda & Western Railway Co. This was simply a spur track and was without any motive-power equipment.

Apart from the timber railroad mentioned above (Deering Southwestern Railway), these were simply industrial railroads which, although of slight importance as transportation agencies, could be, and sometimes were in fact, used to considerable advantage in obtaining exorbitant divisions of freight charges with regular railroad lines which exchanged freight with them. This was particularly the case with two of the Chicago railroads mentioned above, as is shown by the following excerpt from the Eighteenth Annual Report of the Interstate Commerce Commission (p. 43):

The International Harvester Co. owns the capital stock of the Illinois Northern Railroad Co. and a controlling interest in the Chicago, West Pullman & Southern Railway Co., operating as terminal connecting roads in and about the city of Chicago between the plant of the Harvester company and various other industries and connecting roads leading to the Missouri River and other sections of the country. Until recently the charge received for services by these terminal roads was a switching charge amounting to from \$1 to \$3.50 per car for the Illinois Northern and \$3 per car for the Chicago, West Pullman & Southern. These lines now receive in many instances a division of the rate, which on lines reaching the Missouri River is 20 per cent, with the Missouri River division as a maximum. This amounts on farm machinery to \$12 per car of 20,000 pounds as against the former maximum of \$3.50 per car. A charge of \$3.50 per car by the Illinois Northern and of \$3 per car by the Chicago, West Pullman & Southern would be reasonable for these switching services, and charges for such service in excess of those sums amounted to unlawful preference in favor of the International Harvester Co.

A decision to this effect was handed down by the Interstate Commerce Commission (No. 735), in the matter of divisions of joint rates and other allowances to terminal railroads, decided November 3, 1904.

The Owasco River Railway seems never to have been used illegitimately for this purpose.

The case of the Lagonda & Western Railway Co., however, furnishes a flagrant instance of this practice. This so-called railroad, as stated above, was merely a little yard track, without motive power, yet it charged and received freight divisions with connecting roads. Two switching tariffs were issued by this so-called railroad, one, effective September 12, 1906, making a tariff of \$2.50 per car on all

commodities, and another, effective November 15, 1907, making a tariff of \$1 per car on coal, coke, sand, scrap iron, and stone, and of \$2 per car on all other commodities.

Before the beginning of 1909 the Interstate Commerce Commission started an investigation of these and other industrial railroads which, in the case of the International Harvester Co., resulted in the complete abolition of the Lagonda & Western Railway Co., and apparently, also, in the consolidation of the Calumet & Southeastern Railroad Co., and the Chicago, West Pullman & Southern Railway Co.

Section 10. Internal organization and administration of the International Harvester Co. (of New Jersey) and the International Harvester Co. of America.

One of the chief problems of the officers and directors of the International Harvester Co. was the general organization and administration of the company, certain features in the development of which may be considered here. Some of these facts had an important bearing on the financial results of the enterprise.

GENERAL ADMINISTRATION OF THE INTERNATIONAL HARVESTER CO.—The general organization of the International Harvester Co. consisted of a board of directors and certain officers provided by the by-laws, namely, a president, one or more vice presidents, general counsel, treasurer, secretary, and comptroller. The board of directors was at first composed of 6 members, but was increased to 18 on August 13, 1902. Four vice presidents were elected at the same meeting. There were also established by the by-laws an executive committee of 7 members, and a finance committee of 5 members, these being constituted from members of the board of directors. The executive committee exercised the powers of the board of directors between the meetings of the board, except as to certain duties assigned by the board of directors to the finance committee.

Immediately after the organization of the International Harvester Co., namely, at a meeting of the board of directors on August 13, 1902, it was resolved to leave the conduct of the manufacturing business of the company in the hands of representatives of the interests which controlled the several plants prior to the merger. (See p. 87.) Thus, as shown on page 88, Harold F. McCormick was to have charge of the McCormick division; Richard F. Howe, of the Deering division; J. J. Glessner, of the Champion division; and W. H. Jones, of the Plano division. G. H. Schulte was put in charge of the Milwaukee plant. No specific provision was made at the time for a Milwaukee division, but such a division appears to have been established later. This extraordinarily decentralized method of administration, which obviously prevented to a large degree the realization of any economy and efficiency which might be expected from such

a merger, was apparently intended merely as a temporary makeshift. The heads of the "divisions" were authorized to conduct the business of the several divisions along their "own lines," subject to conferences with each other and subject to the supervision of the executive committee. The extent of their manufacturing operations was restricted, but only in a very broad way, by the rules laid down by the executive committee as to the amount of raw material to be purchased and the number and kinds of machines to be manufactured.

A proposition tending toward a centralization of the business was made later in the same year. A committee known as the "manufacturing committee" recommended that the production of machines be concentrated in a few standardized makes. This proposition, however, was opposed by the "sales committee," which advocated retaining the individuality of the different brands. No action appears to have been taken on these recommendations.

In order better to coordinate the business of the company, certain general committees were established soon after the organization of the company by a resolution of the board of directors of December 19, 1902. These committees and their chairmen were designated as follows:

Manufacturing committee, James Deering.
Twine-mill committee, Charles Deering.
Twine and fiber committee, Charles Deering.
Purchasing committee, R. F. Howe.
Traffic committee, H. F. McCormick.
Foreign-sales committee, H. F. McCormick.
Collection committee, J. J. Glessner.
Experimental committee, W. H. Jones.
Advertising committee, W. H. Jones.
Patent committee, C. H. McCormick.
Sales committee, C. H. McCormick.

Although these general committees were established, the conduct of the manufacturing business by divisions was continued. The necessity of a more centralized control was apparent to the board of directors, which passed the following resolution on May 30, 1903:

That we proceed to form an organization for the International Harvester Company for the years 1903 and 1904, with a view of centralizing the business, and particularly to effect savings through economy in the several departments of the company's business while at the same time extending and broadening the business as much and as far as possible.

Apparently as a result of this resolution provision was made a few months later for the establishment of several departments to supervise the business of the company. According to a resolution of the

executive committee of September 30, 1903, the following departments and divisions were established:

- | | |
|------------------------------|---------------------------|
| 1. Accounting department. | 6. Patent department. |
| 2. Experimental department. | 7. Purchasing department. |
| 3. Fiber division. | 8. Security department. |
| 4. Law department. | 9. Traffic department. |
| 5. Manufacturing department. | 10. Utility division. |

The security department included, apparently, questions of surety of employees, taxation, legislation, and insurance.

Just how far these various departments and divisions intervened directly in the conduct of business is not clear, but the manufacturing business at any rate still continued to be conducted by separate divisions. This decentralization of management was finally abolished, however, by a resolution of the board of directors of February 29, 1904, which abrogated the resolution of August 13, 1902, for separate administration by divisions. This appears to mark the beginning of an effective centralization of business, which for about one and a half years had been conducted as if the companies were simply an alliance of rivals, rather than a complete consolidation. The extremely poor financial results of the first year's business (see p. 233) probably convinced the directors of the company that radical changes were necessary.

Just before abolishing the divisions the board of directors provided for a more centralized control. By a resolution of January 20, 1904, it was declared that Cyrus H. McCormick should have the "supreme power in the executive business." Various other changes were made at the same time in the personnel of the chief offices, apparently with a view to getting a more effective organization. The company labored continually, however, under the disadvantage of being obliged to consider the different personal and family interests among the chief stockholders. The result for the company, largely on this account, apparently, was for several years large expense and low profits.

Finally an agreement was made on October 29, 1906, among the chief stockholders of the company, which was intended to settle these disputes and jealousies and bring about an efficient management of the business. At the same time provision was made for changing the capital stock of the company by arranging to divide the total issue of \$120,000,000 into two equal parts, half of which was to be preferred and the other half common. So far as the organization of the business was concerned, the purpose and effect of this agreement was to make a specific distribution of offices and managerial positions, which the chief stockholders agreed to maintain. This was done, apparently, with a view to preventing cabals. Although the McCormicks were thus established apparently in supreme authority, definite positions (including some of a purely honorary nature) were allotted

to other chief stockholders and to managing officers and employees of the company who had been identified to a greater or less extent with particular interests.

This arrangement seems to have settled finally the form and personnel of the management of the company and to have resulted in the avoidance of further jealousies and disputes. Quite closely corresponding with this change of its management came a change in the financial prosperity of the company.

RELATIONS OF THE INTERNATIONAL HARVESTER CO. WITH THE AMERICA COMPANY.—As already shown, the Milwaukee company's charter was used as a basis for a selling company, the name being changed to the International Harvester Co. of America. The America company, as it is called, was intrusted with the sale of all the implements and machines of the International Harvester Co., paying for them at a schedule of prices which left practically no profit to the selling company. (See p. 90.)

Until 1910 all of the officers and directors of the America company were also officers and directors of the International Harvester Co. Furthermore, a large part of its administrative work at the main office in Chicago was conducted by the same staff. The office expenses and salaries for the work thus done in common was divided between the two companies interested, according to a resolution of the executive committee of January 22, 1904, in the following proportions:

Item.	International Harvester Co.	America company.
General executive and administrative offices.....	50	50
Accounting department.....	50	50
Law department.....	50	50
Patent department.....	90	10
Purchasing department.....	90	10
Security department.....	50	50
Traffic department.....	35	65

Although by subsequent agreements (e. g., July 1, 1907) different proportions of liability were established the principle remained the same.

Like the International Harvester Co., the America company was organized in departments. Thus, according to a resolution of the executive committee of the America company of September 30, 1903, the following departments were established:

- | | |
|---------------------------|-------------------------|
| 1. Accounting department. | 6. Security department. |
| 2. Collection department. | 7. Traffic department. |
| 3. Law department. | 8. Utility department. |
| 4. Purchasing department. | 9. Patent department. |
| 5. Sales department. | |

Several foreign marketing companies were organized and also some foreign manufacturing companies, which at first remained subsidiary to the America company. Of the foreign companies organized, the only exception to this rule was the International Harvester Co. of Canada, which was established as a direct subsidiary of the International Harvester Co. (of New Jersey). This system prevailed down to the end of 1910, when by a resolution of the board of directors of the International Harvester Co. of December 31, 1910, the stock of most of them was transferred from the America company to the International Harvester Co., the purchase price being the cost of the respective investments as they stood on the books December 31, 1910. The companies so transferred were the following:

International Harvester Co. of Great Britain (Ltd.) (England).

Aktiebolaget International Harvester Co. (Sweden).

Aktieselskabet International Harvester Co. (Denmark).

Aktieselskabet International Harvester Co. (Norway).

Deutsche International Harvester Co. m. b. H. (Germany).

Osborne & Co. m. b. H. (Germany).

Compagnie Internationale des Machines Agricoles (France—Croix works).

Compagnie Internationale des Machines Agricoles de France (France—Paris).

International Harvester Co., Gesellschaft m. b. H. (Austria).

Columbian Shipping Co. (New Jersey, U. S. A.).

The general supervision of the foreign business, irrespective of local company organization, so far as most of the markets of the Eastern Hemisphere were concerned, was divided in 1904 between two general foreign offices as follows:

(1) *Hamburg*: Including Scandinavia, Holland, Germany, Austria-Hungary, Roumania, Bulgaria, Greece, Turkey, Russia (including Siberia), and the Orient.

(2) *Paris*: Including the United Kingdom, France, Belgium, Switzerland, Spain, Portugal, Italy, and north Africa.

In 1911 a change was made in the organization of the foreign trade. Under the present arrangement the financial operations of the company, i. e., such matters as loans, etc., are managed from the London office. Instead of two main commercial offices at Hamburg and Paris, a single office has been established at Brussels, Belgium, to take over the general commercial management. This office is called a statistical bureau. The reason for this change, it is understood, arose in connection with questions of the taxation of the business of the International Harvester Co. in Germany.

Section 11. Profit-sharing system of the International Harvester Co. and welfare work.

A striking feature of the management of this company is its so-called "profit-sharing system," established with a view to improving the relations of the company with its employees.

This project was initiated in February, 1906, and a plan was submitted to the board of directors and approved on December 22, 1906. The system was inaugurated in 1909.

The details of this profit-sharing scheme are not of special significance for the purposes of this report. The principal feature is a plan to facilitate the acquisition of the stock of the International Harvester Co. by its officers and employees under favorable conditions as to price and terms. A secondary feature is the payment of bonuses to employees on the basis of work done or economies made.

In this connection it may be noted that the International Harvester Co. has organized a pension system for employees, the expense of which is borne entirely by the company, and that it has also organized "welfare" projects of various sorts.

The character and results of these projects have been described by the chairman of the finance committee of the International Harvester Co. as follows:

The company has been criticised by managers of other companies for making the plan above outlined too liberal and attractive. It has been said that the plans will be too expensive to the Harvester company and that their cost will be very large. There is no doubt of the truth of this criticism in so far as the cost goes. No concern has ever put out plans that involved the application of so large a percentage of its profits to such plans. But the Harvester company did not do this out of pure philanthropy. It had no intention of passing around a hat full of money, that employees might help themselves. It went into these enterprises in a purely business spirit, believing that the plans would so knit its vast organization together, would so stimulate individual initiative, would so strengthen and develop the esprit de corps of the organization as to make it possible for the company to increase its business and its earnings, and with the spirit of being willing to share this increased success with its organization. So far the company has every reason to congratulate itself on the result. In all parts of the company's business, at home and abroad, in the office force, in the factories, in the sales department, everywhere, the average interest of the individual in the business is greater than formerly. The saving of the waste here, there, and everywhere, is noticeable. The employees throughout the organization are vying with one another more and more to improve their respective branches of the business. This means profits for the stockholders, means extra compensation in various ways for the

employees—in short, means cooperation that is real, that is beneficial to one and all.¹

The company has also devoted considerable attention to the promotion of improved agricultural methods.

Section 12. Important financial changes.

The International Harvester Co. originally issued capital stock, all common, in the amount of \$120,000,000. The possibility of a preferred-stock issue was contemplated at the beginning, and provisions relating thereto were embodied in the original contracts for the formation of the merger of July 28, 1902. This plan of issuing preferred stock was later adopted, according to a resolution of the board of directors of December 22, 1906, which arranged for the division of the total capital stock into two equal parts, namely, \$60,000,000 preferred and \$60,000,000 common. The preferred stock was to pay dividends at 7 per cent, which were to be cumulative. As a part of this plan, the stocks of the company were listed on the New York Stock Exchange. In order to accomplish this purpose, it was necessary to get the assent of the stockholders and to amend the certificate of incorporation and the by-laws of the company. The amended certificate of incorporation was filed January 8, 1907, and provided for the proposed change in stock issue and also certain other matters. On the same day the voting trustees took appropriate action and provided for the exchange of the old trust certificates covering the original stock issue in their possession (\$119,998,200) for new trust certificates covering the same total number of shares, one-half common stock and one-half preferred.

In 1910, a considerable surplus having been accumulated, the board of directors of the International Harvester Co. decided to make a stock dividend of \$20,000,000, according to a resolution of January 14, 1910, which stated in part as follows:

Whereas the total net earnings of this company during the 7½ years of its operations have averaged 6.5 per cent per annum, and its dividends paid therefrom have averaged only 3.4 per cent per annum on its total capital stock, all of which was fully paid for at organization in cash and conservatively valued tangible properties; and

Whereas, the balance of such net earnings, averaging 3.1 per cent per annum during the said period, has been required by the company for the extension and protection of its business, and for increased working capital made especially necessary by changing trade conditions abroad, and no dividends have been paid on the common stock since 1906; and

¹ "The Underlying Principle of The Profit-Sharing, Benefit and Pension Plans of The International Harvester Company." Paper by George W. Perkins before The National Civic Federation, Nov. 23, 1909, p. 7.

Whereas, such accumulated net earnings (in excess of the specified dividends on the preferred stock) now amount to upwards of \$20,000,000 and are represented by tangible assets and working capital of the company and belong exclusively to the common stock, but have not become available for the payment of cash dividends thereon;

I. *Resolved*, that the board of directors of the International Harvester Co. deem and declare it to be advisable:

1. That the total authorized capital stock of the corporation be increased from \$120,000,000, par value, to \$140,000,000, par value, by increasing the amount of the authorized common stock from \$60,000,000, par value, to \$80,000,000, par value, such increase consisting of 200,000 additional shares of common stock, of the par value of \$100 each. * * *

In this manner the common stock was increased from \$60,000,000 to \$80,000,000, and the total capital stock of the company raised from \$120,000,000 to \$140,000,000.

The International Harvester Co. has never issued any bonds. The company, however, has always been a large borrower. Its loans have always been in the form of notes and have been placed with a considerable number of financial concerns in Chicago, New York, and elsewhere. Certain very significant individual loans are specifically discussed in the following section. According to a resolution of December 28, 1911, the board of directors voted to make an unusually large loan, namely, to issue three-year notes to the amount of \$20,000,000, at 5 per cent interest.

Section 13. Financial support of the International Harvester Co. by John D. Rockefeller.

An important feature of the operations of the International Harvester Co. is found in extensive loans by John D. Rockefeller to the company. Mr. Rockefeller is father-in-law of Harold F. McCormick.

In the minutes of the finance committee under date of December 15, 1905, the statement appears that the president (C. H. McCormick) and treasurer (H. F. McCormick) "wished to confer with the Finance Committee in reference to a time loan for the benefit of the Company, which had been suggested to them by Mr. John D. Rockefeller."

At the next meeting of the finance committee (December 19, 1905) the following statement appears:

Mr. Howe reported that an agreement had been reached with Mr. Rockefeller's representatives for a loan of \$7,000,000, to be taken: \$5,000,000 on January 2, 1906; \$1,000,000 on May 1, 1906; \$1,000,000 on June 1, 1906; and to be payable: \$1,000,000 on January 2, 1910; \$2,000,000 January 2, 1911; \$2,000,000 January 2, 1912; \$1,000,000 on May 1, 1913, and \$1,000,000 on June 1, 1913; with interest at the rate of 5 per cent per annum, payable semi-

annually. He stated that under the terms of the agreement the loan could be paid at any interest date after 3 years in lots of not less than \$500,000, on 60 days' notice, at par.

This loan was unanimously approved by the finance committee.

At a meeting of the finance committee on February 8, 1911, a resolution was passed recommending the board of directors to arrange another loan from John D. Rockefeller in the amount of \$10,000,000, and this was authorized at a meeting of the board of directors on February 16, 1911. Accordingly, a contract was entered into on the same day between John D. Rockefeller and the International Harvester Co. for the sale of notes of the International Harvester Co. to John D. Rockefeller, aggregating \$10,000,000, face value, and bearing 5 per cent interest, at a price of 98.5 per cent of their face value. Temporary notes were to be issued on the following dates:

Feb. 20, 1911-----	\$1, 000, 000	June 1, 1911-----	\$1, 500, 000
Mar. 1, 1911-----	1, 500, 000	July 1, 1911-----	1, 500, 000
Apr. 1, 1911-----	1, 500, 000	Aug. 1, 1911-----	1, 500, 000
May 1, 1911-----	1, 500, 000		

On August 1, 1911, the interest on these notes was to be paid, and new notes, maturing on August 1, 1921, in denominations of \$100,000, issued instead, to the same aggregate amount (\$10,000,000), in a form prescribed in the contract. The International Harvester Co. was to have the option to prepay such notes at 102 per cent of their face value at any time after August 1, 1912, provided six months' notice of such intention and the amount intended to be so paid was given, such notice being irrevocable.

Section 14. Company organization of the International Harvester Co.

This development and reorganization of the manufacturing properties of the International Harvester Co. was accompanied by an extensive remodeling and development of its company organization. Furthermore, for the purpose of extending its export trade and following the rapid development therein, a more elaborate company organization was established for the marketing business. Between the time of its foundation and the present (1913), the International Harvester Co. included several other companies which were either acquired at the time of its formation or established subsequently to the merger, but which now are either defunct or practically so.

COMPANY ORGANIZATION IN 1912.—The company organization of the International Harvester Co. in July, 1912,¹ and the business of the several companies as reported to the bureau are shown in the table following.

¹ For recent changes in company organization see pp. 169-178.

TABLE 25.—SUBSIDIARY COMPANIES OF THE INTERNATIONAL HARVESTER CO. IN JULY, 1912.¹*Domestic companies.*

Company.	Date of organization.	Legal domicile.	Location of plants or business offices.	Capital stock issued.	Business.
International Harvester Co. of America.	* 1902	Wisconsin.....	Chicago.....	\$1,000,000	Marketing.
Wisconsin Steel Co.....	1905	....do.....	....do ²	1,000,000	Iron and steel manufacturing.
Wisconsin Lumber Co.....	1905	....do.....	....do ³	250,000	Lumber manufacturing.
International Flax Twine Co.	1905	Minnesota.....	St. Paul.....	250,000	Twine manufacturing.
Chicago, West Pullman & Southern R. R. Co.	* 1909	Illinois.....	Chicago.....	400,000	Transportation.
Illinois Northern Ry.....	1901	....do.....	....do.....	500,000	Do.
Deering Southwestern Ry...	1903	Missouri.....	Missouri.....	400,000	Do.
The Owasco River Ry.....	1881	New York.....	Auburn, N. Y..	30,000	Do.
Columbian Shipping Co.....	* 1905	New Jersey.....	New York.....	24,000	Shipping brokerage.

Foreign companies.

Compagnie Internationale des Machines Agricoles.	1905	France.....	Croix, France...	Fr. 5,000,000	Manufacturing.
Compagnie Internationale des Machines Agricoles de France.	1910	....do.....	Paris, France....	Fr. 2,500,000	Marketing.
Deutsche International Harvester Co. m. b. H.	* 1910	Germany.....	Berlin, Germany	M. 1,000,000	Do.
International Harvester Co. m. b. H.	1908	....do.....	Neuss, Germany	M. 1,000,000	Manufacturing.
International Harvester Co. in Russia.	1910	Maine, U. S. A...	Moscow, Russia.	\$4,000,000	Manufacturing and marketing.
Aktiebolaget International Harvester Co.	1904	Sweden.....	Norrköping, Sweden.	Kr. 3,000,000	Do.
Aktieselskabet International Harvester Co.	1910	Norway.....	Christiania, Norway.	Kr. 100,000	Marketing.
Do.....	1905	Denmark.....	Copenhagen, Denmark.	Kr. 50,000	Do.

¹ The domestic implement and twine plants, except the St. Paul twine plant, are operated directly by the International Harvester Co. of New Jersey.

² Successor to Milwaukee Harvester Co., which was successor to Parker-Dennett Harvesting Machine Co., organized in 1881.

³ Ore mines in Minnesota and Wisconsin and coal mines in Kentucky.

⁴ Timberlands and sawmills in Missouri, Arkansas, and Mississippi.

⁵ Merger of Chicago, West Pullman & Southern Ry. (1900), and Calumet & Southeastern R. R. (1902); industrial railroads connecting the Plano plant and steel works with trunk lines.

⁶ Successor to Street Steamship Co., organized in 1904.

⁷ Successor to McCormick Harvesting Machine Co., m. b. H., organized in 1900.

TABLE 25.—SUBSIDIARY COMPANIES OF THE INTERNATIONAL HARVESTER CO. IN JULY, 1912—Continued.

Foreign companies—Continued.

Company.	Date of organization.	Legal domicile.	Location of plants or business offices.	Capital stock issued.	Business.
International Harvester Co. of Great Britain (Ltd.).	1906	Great Britain.....	London, England.	£50,000	Marketing.
International Harvester Co., Gesellschaft m. h. H.	1908	Austria.....	Vienna, Austria.	Kr. 200,000	Do.
International Harvester Co. A. G.	1911	Switzerland.....	Zurich, Switzerland.	Fr. 150,000	Do.
International Harvester Co. of Canada (Ltd.).	1903	Ontario, Canada..	Hamilton, Canada.	\$1,000,000	Manufacturing.
Oliver Chilled Plow Works of Canada (Ltd.). ¹	1910	Canada.....	.....do.....	\$1,000,000	Do.
Eastern Building Co. (Ltd.).	1903	Ontario, Canada..	.....do.....	\$80,000	Building dwellings.
International Harvester Co. of Australia, Pty. (Ltd.). ²	1912	Victoria, Australia.	Melbourne, Victoria.	£500,000	Marketing.
International Harvester Co. of New Zealand (Ltd.). ²	1912	New Zealand.....	Christchurch, New Zealand.	£65,000	Do.
Macleod & Co.....	1911	Philippine Islands.	Manila, P. I.....	₱1,000,000	Purchase of fiber.
Salango Export Co. ³	1907	New Jersey, U.S.A.	Ecuador.....	\$200,000	Fiber production.

¹ International Harvester Co. owned a one-fourth interest in July, 1912, but subsequently the capital stock was increased to \$2,500,000 and the International Harvester Co.'s interest was increased to \$500,000.

² Subcompany of the International Harvester Co. of America.

³ International Harvester Co. acquired 1,020 shares in 1910, out of a total of 2,000 shares.

All of the companies listed in the foregoing table were, in 1912, direct subsidiaries of the International Harvester Co. (New Jersey), except two of the foreign marketing companies, namely, the International Harvester Co. of Australia, Proprietary (Ltd.), and the International Harvester Co. of New Zealand (Ltd.), which were subsidiaries of the International Harvester Co. of America. As noted in connection with the table, the domestic manufacturing plants used for the manufacture of implements and twine, with the exception of the St. Paul twine plant (International Flax Twine Co.), are all operated directly by the New Jersey company.

In each case, the capital stock noted indicates the amount of capital stock issued, which was also identical with the capital stock authorized, except in the case of the International Harvester Co. in Russia, which then had an authorized capital stock of \$8,000,000. Except for the Oliver Chilled Plow Works, of Canada, and the Salango Export Co. the entire capital stock issued is held by the International Harvester Co. or the International Harvester Co. of America, respectively, as indicated, except directors' shares. Formerly the stock of the Inter-

national Harvester Co. of America was held by the same voting trustees as that of the International Harvester Co. (New Jersey), for the benefit of stockholders of the International Harvester Co., but as this voting trust has been dissolved, it is understood that the shares are now held directly by the International Harvester Co. (New Jersey).

Some of the shares of the capital stock of the International Harvester Co. are held by the company itself or by the America company, either for insurance reserves or in connection with the employees' stock subscription plan. The quantities so held in 1912 were as follows: Preferred stock, 26,605 shares; common stock, 12,635 shares.

DEFUNCT SUBSIDIARY COMPANIES.—Certain companies which formerly were embraced within the organization of the International Harvester Co. have been dissolved, combined with other companies, or otherwise become practically defunct. These companies and the details of their organization and relations to the International Harvester Co. are as follows:

South Chicago Furnace Co.—This company was organized under the laws of Illinois on March 25, 1899, with a capital stock of \$200,000. The control of this company was acquired with the Deering properties at the time of the merger. The property of this company was transferred to the Wisconsin Steel Co. in 1907.

Illinois Iron Mining Co.—This company was organized under the laws of Illinois on May 28, 1901, with a capital stock of \$20,000. Seven-eighths of the stock was acquired with the Deering properties at the time of the merger, and the balance in 1911. The iron-mining property was transferred to the Wisconsin Steel Co. in March, 1912.

Weber Wagon Co.—This company was organized under the laws of Illinois March 10, 1883, with a capital stock of \$500,000. The stock was acquired by the International Harvester Co. in 1904 and 1905 and the plant and property transferred to that company in 1905. It has now a nominal existence.

D. M. Osborne & Co. and Columbian Cordage Co.—The capital stock of these two companies was acquired by the International Harvester Co. in connection with the purchase of their properties on January 15, 1903. The properties were transferred to the International Harvester Co. December 19, 1904. Both of these companies are practically defunct.

Minnie Harvester Co.—The capital stock of this company was acquired in connection with the purchase of certain property from the American Grass Twine Co. It was transferred to the International Flax Twine Co. in 1905. This company is defunct.

The Keystone Co.—This company was acquired through stock control October 13, 1904, and the property transferred to the International Harvester Co. on September 6, 1905.

The Aultman & Miller Buckeye Co.—This company was organized under the laws of Ohio on July 8, 1903, with a capital stock of \$750,000. Its property was transferred to the International Harvester Co. on November 2, 1905. It has now only a nominal existence.

Lagonda Western Railroad Co.—This company was organized under the laws of Ohio on February 16, 1904, with a capital stock of \$25,000, and was dissolved in 1909.

Calumet & Southeastern Railroad.—This company was organized under the laws of Illinois December 12, 1902, with a capital stock of \$100,000. It was merged with the Chicago, West Pullman & Southern Railroad Co. on October 28, 1909.

Chicago, West Pullman & Southern Railway Co.—This company was organized under the laws of Illinois February 5, 1900, with a capital stock of \$50,000. Control was obtained by the International Harvester Co. through the acquisition of one-half of the capital stock from the Plano interests. It was reorganized in 1909, with a slight change in name.

Chatham Wagon Co.—This company was organized under the laws of Ontario, Canada, June 7, 1882. The International Harvester Co. of Canada acquired the capital stock (\$79,400) in 1910 and this company was dissolved in 1911.

MacLeod & Co.—This partnership was organized by the International Harvester Co. in the Philippine Islands in 1904, succeeding to another firm of the same name. It was changed to a corporation in 1911.

McCormick Harvesting Machine Co. m. b. H. (Berlin).—This company was organized under the laws of Germany September 7, 1900, with a capital stock of 200,000 marks, and was acquired by the International Harvester Co. at the time of the merger. In 1910 its name was changed to Deutsche International Harvester Co. m. b. H.

Osborne & Co. m. b. H.—This company was organized under the laws of Germany September 17, 1903, with a capital stock of 200,000 marks. It is apparently defunct.

Deering Harvester Co. (Ltd.), McCormick Harvesting Machine Co. (Ltd.), and Osborne-Plano Co. (Ltd.).—These three companies were organized under the laws of England in 1904, each with a capital stock of £20,000. They were liquidated in 1906, and their business taken over by the International Harvester Co. of Great Britain (Ltd.).

Section 15. Separation of the International Harvester Co. into two companies on January 27, 1913.

On account of the pending suit of the United States Government for the dissolution of the International Harvester Co., the board of directors on January 27, 1913, organized a company under the laws of New Jersey, called the International Harvester Corporation, to which were transferred all the foreign plants and business of the International Harvester Co., together with all the domestic plants exclusively engaged in the manufacture of so-called "new lines." The articles of incorporation provided for a capital stock of \$70,000,000, of which \$30,000,000 was preferred and \$40,000,000 common. The total amount of this stock, it may be noted, was exactly one-half of the amount issued by the International Harvester Co., and it was divided in the same proportion of preferred and common. As a part of this plan it was arranged to submit to the stockholders of the International Harvester Co. a proposition for reducing the stock issues of that company to a total of \$70,000,000 divided into \$30,000,000 preferred and \$40,000,000 common, and to change the title of the company from International Harvester Co. to International Harvester Co. of New Jersey. This proposition was accepted by the stockholders at a meeting held on February 10, 1913. The plan provided further that the stockholders in the International Harvester Co. should turn in their stock for cancellation and receive in exchange therefor new stock certificates of one-half the amounts of preferred and common so turned in, together with equal amounts of preferred and common stock in the International Harvester Corporation, or, in lieu of the latter, cash at par.

Some of the particulars of this plan are shown in the following letter dated January 29, 1913, from the company to the stockholders of the International Harvester Co.:

INTERNATIONAL HARVESTER COMPANY,
HARVESTER BUILDING,
Chicago, January 29, 1913.

To the Stockholders of the International Harvester Company:

In view of the suit of the United States against this Company, which may be pending and undetermined for a considerable time, it is deemed by your Directors necessary for the advantageous carrying on of the Company's business in foreign countries and in its so-called "New Lines" in the United States, that the same should be owned and carried on separately from its domestic business in the harvester lines. Accordingly, this Company has caused to be organized, under the laws of New Jersey, the International Harvester CORPORATION (hereinafter called the "New Corporation"), and has transferred to it the following assets:

(a) All of the foreign plants and all of the foreign business of the Company, including the stock of all foreign subsidiary com-

panies organized in connection with the foreign business, including the International Harvester Company of Canada, Limited;

(b) The following plants in the United States which are devoted to the manufacture of the so-called "new lines" (which include gas engines, tractors, auto-wagons, cream separators, wagons, manure spreaders, and tillage and planting implements which have been added since the organization of this Company): Akron Works, Akron, Ohio; Milwaukee Works, Milwaukee, Wis.; Newark Valley Works, Newark Valley, N. Y.; Plano Works, West Pullman, Ill.; Tractor Works, Chicago, Ill.; Weber Works, Chicago, Ill.

(c) All manufactured products, work in progress, and materials which are appurtenant to the foreign business or to the manufacture of the "new lines."

(d) The new Corporation is also to acquire such a portion of the quick assets (including materials, accounts and bills receivable and cash) and to assume such a portion of the debt of the present Company as shall result in the net assets and surplus of the two corporations being substantially equal.

The new Corporation has issued to the present Company, for the assets acquired as above stated, all of its capital stock as follows:

Seven per cent. cumulative preferred stock having substantially the same rights and priorities as the preferred stock of the present Company-----	\$30, 000, 000
Common Stock-----	40, 000, 000
Total-----	70, 000, 000

Thus the new Corporation has one-half as much preferred and common stock as the present Company. It has approximately one-half in value of the present Company's assets and an earning capacity also estimated to be about one-half that of the present Company.

It is proposed to reduce each class of capital stock of the present Company by one-half, so that, after the reduction it will have outstanding the same amount of preferred and common stock as the new Corporation, and so that the present holdings of each stockholder in the present company will be reduced one-half. Upon such reduction being made, each stockholder will be paid One hundred dollars (\$100) in cash for each share of his stock, preferred or common, cancelled by such reduction; or at his option he will receive, in lieu of such cash payment, shares of stock of the new Corporation of the same par value and class, preferred or common, as his cancelled shares of stock.

It is expected that the new Corporation will at once begin to pay dividends upon its stock, preferred and common, at the same rates and dates as in the case of the present Company, so that stockholders electing to take stock of the new Corporation, instead of cash, will receive the same aggregate amounts of dividends, at the same dates, as they would have received had no change been made.

The two corporations, the present and the new, will together own all the properties now held by the present Company, and have the same aggregate number of shares of stock of the same

par value and of the same classes, preferred and common, as the present Company now has; and each stockholder taking the new stock will hold the same number of shares and kind of stock issued in two equal parts by the two corporations instead of all being issued by the present Company. The number of shares, par value, and class of stock of each stockholder will be unaffected.

To avoid confusion in the names of the two companies, it is also proposed to change the name of the present Company by adding thereto the words "of New Jersey."

The stock books of the present Company will be closed at the close of business on February 8, 1913, and the usual quarterly dividend of one and three-fourths per cent will be paid on March first, 1913, upon all of the existing preferred stock of the present Company to holders of record at the end of business, February 8, 1913. If the decrease in capital stock outlined above is adopted by the stockholders at the special meeting called for Monday, February 10, 1913, (notice of which is herewith enclosed), the stock books for the present stock will remain closed and the stockholders of record on February 8, 1913, will be immediately notified of the reduction of stock and called upon to surrender for cancellation their outstanding certificates of stock in exchange for new certificates of stock of the present Company of the same class and par value for one-half the number of shares represented by the certificates surrendered and for the other half either cash, or at the option of the stockholder, certificates of stock of the new Corporation of the same class and par value for one-half the number of shares represented by the certificates surrendered.

You are requested to sign and return to the Secretary of the Company the enclosed proxy authorizing your stock to be voted at the meeting called for the purpose of authorizing the proposed reduction of the capital stock of this Company and the change in its corporate name.

You should also fill out and mail to the Secretary of the Company the enclosed letter, stating whether, upon the decrease of capital stock, you wish to take cash or stock in the new Corporation for one-half the amount of your present holdings.

All stockholders electing to take cash for their surrendered stock must file written notice of such election with the Secretary of the Company not later than March 15, 1913, and failure to file such written notice will operate as an election to receive stock of the new Corporation instead of cash for their cancelled shares.

Application will be made to list both the new stock of the present Company and the stock of the new Corporation on the New York Stock Exchange.

By order of the Board of Directors.

CYRUS H. McCORMICK, *President*,
W. M. GALE, *Acting Secretary*.

It will be noted that the stockholders of the International Harvester Co. have the privilege of electing between taking the preferred or common stock, respectively, of the International Harvester Cor-

poration, or cash at par for one-half of the preferred or common stock certificates, respectively, of the International Harvester Co. surrendered for cancellation, but that this privilege of election terminates on March 15, 1913, and failure to make election before that time operates as an acceptance of the stock in the new corporation instead of cash.

Further details were given concerning this plan of dividing the International Harvester Co. in official statements to the New York Stock Exchange in connection with listing the 7 per cent cumulative preferred stock and common stock of the reorganized International Harvester Co. of New Jersey and of the new company, the International Harvester Corporation.

After reciting various facts regarding the history of the International Harvester Co. and the provisions of its amended certificate of incorporation of February 10, 1913, the following statements are made regarding the transfer of certain of the plants of the International Harvester Co. to the new corporation, the method of distributing the stock of the new corporation, and the division of its unsecured long-time obligations between the two new companies:

The Company has recently entered into an agreement with International Harvester Corporation, a corporation of the State of New Jersey, whereby it has sold to that Corporation its plants in the United States, six in number, used for the manufacture of gasoline and oil engines, tractors, auto-wagons, cream separators, wagons, manure spreaders, tillage and planting implements. Said plants are the Akron plant at Akron, Ohio; the Milwaukee plant at Milwaukee, Wisconsin; the Newark Valley plant at Newark Valley, New York, and the Plano, Tractor and Weber plants at Chicago, Illinois. By said agreement the Company also sold to said International Harvester Corporation the Capital Stocks of the subsidiary companies which owned the foreign plants and business of the Company in all lines, together with working capital in the shape of cash, receivables, inventories and its beneficial interest in certain real estate in Chicago. Said agreement provides for a settlement of the account thereunder prior to July 1, 1913, and such a division of the assets and liabilities of the Company as of December 31, 1912, that the net assets of the two Companies after such division shall be equal.

By the terms of said agreement with said International Harvester Corporation the Company received for said one-half of its net assets 300,000 shares of the Seven Per Cent Cumulative Preferred Stock and 399,964 shares of Common Stock of said International Harvester Corporation, all of the par value of \$100 each. The Company has offered said Preferred Stock for pro rata distribution among the holders of its own Preferred Stock, and said Common Stock for pro rata distribution among the holders of its own Common Stock, each stockholder being given the privilege of taking cash to the amount of the par value of the stock so offered.

The Old Company has no mortgage indebtedness except certain small real estate purchase money obligations. Its long-time obligations are as follows:

\$10,000,000 unsecured loan due in 1921, and

\$20,000,000 unsecured Three-Year Five Per Cent Gold Notes issued under the indenture dated February 15, 1912, made between the Company and the Bankers Trust Company as Trustees.

By the agreement between the Old Company and the New Corporation mentioned above, the New Corporation assumed the payment of said \$10,000,000 unsecured loan, due 1921, and \$5,000,000 of said Three-Year Five Per Cent Gold Notes, the Company remaining liable upon the purchase money obligations mentioned.

In the event of default upon either of the long-time obligations, the Old Company is directly liable for the payment of the full amounts.

* * * * *

The domestic manufacturing plants which are taken over by the new company, the International Harvester Corporation, are stated in the excerpt given above, together with the various kinds of farm machinery which they manufacture. It should be noted, however, that some of the plants which are not transferred to this new company also manufacture some of these new lines, as, for example, tillage implements at the Osborne and Keystone plants and manure spreaders at the Champion plant. As nothing is stated regarding the discontinuance of these lines at the plants retained by the International Harvester Co. of New Jersey, it may be assumed that they will continue to be manufactured there. Inasmuch as tillage implements and manure spreaders are manufactured at the Plano plant, and manure spreaders at the Newark Valley works also, and as both of these plants are transferred to the International Harvester Corporation, it appears that both of the two new companies will have these two lines of farm implements. Moreover, nothing appears as to which company will handle certain outside lines which hitherto have been marketed by the International Harvester Co. of America. At the present time seeding machines and drills are manufactured at the Deering and Champion plants, while the America company sells even more important brands of these machines as a jobber.

Furthermore, nothing is stated as to the International Harvester Co. of America—whether it will be continued, and, if continued, whether the property and organization will be attached to either one of these companies or to be divided between them. This, of course, is a very important feature in the organization of the old company. While the physical property of the America company in warehouses, etc., is by no means inconsiderable, the selling organization is much more significant. The only light thrown on this aspect of the division is found in the transfer of all the foreign marketing

companies to the new International Harvester Corporation, together with the foreign manufacturing companies. The following table is given in the official statements above referred to as to the foreign companies which are thus transferred to the International Harvester Corporation:

TABLE 26.—SUBSIDIARY COMPANIES OF THE INTERNATIONAL HARVESTER CO. DOING BUSINESS IN FOREIGN COUNTRIES AND TRANSFERRED TO THE INTERNATIONAL HARVESTER CORPORATION ABOUT FEBRUARY, 1913.

Name.	Place of organization.	Place of business.	Amount of capital.	Amount owned, International Harvester Corporation.
Aktiebolaget International Harvester Co.	Sweden.....	Norrköping, Sweden..	Kr. 3,000,000	Kr. 3,000,000
Aktieselskabet International Harvester Co.	Denmark...	Copenhagen, Denmark..	Kr. 100,000	Kr. 100,000
Aktieselskabet International Harvester Co.	Norway.....	Christiania, Norway ..	Kr. 100,000	Kr. 99,000
Compagnie Internationale des Machines Agricoles de France S. A.	France.....	Paris, France.....	Fr. 2,500,000	Fr. 2,495,000
Compagnie Internationale des Machines Agricoles S. A.	.....do.....	Croix, France.....	Fr. 5,000,000	Fr. 4,997,000
Deutsche International Harvester Co. m. b. H.	Germany...	Berlin, Germany.....	M. 1,000,000	M. 1,000,000
Eastern Building Co. (Ltd.).....	Ontario, Canada.	Hamilton, Ontario....	\$50,600	\$50,600
International Harvester Co., A. G.	Switzerland.	Zurich, Switzerland...	Fr. 150,000	Fr. 150,000
International Harvester Co., G. m. b. H.	Austria.....	Vienna, Austria.....	Kr. 50,000	Kr. 50,000
International Harvester Co. in Russia.	Maine.....	Lubertzy, Russia.....	\$6,500,000	\$6,500,000
International Harvester Co. m. b. H.	Germany...	Neuss, Germany.....	M. 4,000,000	M. 4,000,000
International Harvester Co. of Australia, Proprietary (Ltd.).	Australia....	Melbourne, Australia..	£500,000	£500,000
International Harvester Co. of Canada (Ltd.).	Ontario, Canada.	Hamilton, Ontario....	\$1,000,000	\$1,000,000
International Harvester Co. of Great Britain (Ltd.).	Great Britain.	London, England.....	£50,000	£47,000
International Harvester Co. of New Zealand (Ltd.).	New Zealand.	Christchurch, New Zealand.	£60,000	• £60,000

To the International Harvester Corporation has also been transferred the interest of the old International Harvester Co. in the Oliver Chilled Plow Works of Canada (Ltd.), namely, a one-fifth interest in the capital stock of \$2,500,000.

A very remarkable feature of this division is found in the transfer of all the transportation companies formerly controlled by the International Harvester Co. to the new International Harvester Corporation. These, together with a small shipping company, located in New

York, are shown in the following table which is also contained in the official statements above referred to:

TABLE 27.—SUBSIDIARY COMPANIES OF THE INTERNATIONAL HARVESTER CO. ENGAGED IN TRANSPORTATION, ETC., IN THE UNITED STATES, AND TRANSFERRED TO THE INTERNATIONAL HARVESTER CORPORATION ABOUT FEBRUARY, 1913.

Name.	Place of organization.	Place of business.	Amount of capital.	Amount owned, International Harvester Corporation.
Columbian Shipping Co.....	New Jersey.....	New York City.....	\$24,000	\$24,000
Deering Southwestern Ry.....	Missouri.....	Deering, Mo.....	400,000	400,000
Illinois Northern Ry.....	Illinois.....	Chicago, Ill.....	500,000	500,000
The Owasco River Ry.....	New York.....	Auburn, N. Y.....	30,000	30,000
Chicago, West Pullman & Southern R. R. Co.....	Illinois.....	Chicago, Ill.....	400,000	400,000

Of the four railroads given in the above statement the first, namely, the Deering Southwestern Railway, is, as has already been shown, largely used in serving the timber properties in Missouri. As these timber properties are retained by the International Harvester Co. of New Jersey, it is remarkable that the railroad should be transferred to the International Harvester Corporation. The three remaining railroads given in the foregoing statement, namely, the Illinois Northern, the Owasco River, and Chicago, West Pullman & Southern, are purely industrial railroads, serving chiefly the McCormick, the Osborne, and Wisconsin Steel Co. plants, respectively. However, the Illinois Northern Railway also serves the Tractor plant, which is transferred to this new company, while the Chicago, West Pullman & Southern Railroad is connected with the Plano works, which are likewise transferred. Nevertheless, their principal business comes from the McCormick plant and the steel plant, as stated above. As these plants and the Osborne plant are retained by the International Harvester Co. of New Jersey, the transfer of the railroads to the International Harvester Corporation is equally remarkable.

Inasmuch as the old International Harvester Co. was not at the date of the foregoing statements able to finally establish its balance sheets for the year 1912, it was not possible to make more than a preliminary statement as to the effect of this division of its assets and liabilities. Preliminary or tentative statements were made, however, of the assets and liabilities of the old International Harvester Co. as of December 31, 1912, and of the two new companies as of February 1, 1913. These are given in the tables following.

TABLE 28.—INTERNATIONAL HARVESTER COMPANY (NOW INTERNATIONAL HARVESTER COMPANY OF NEW JERSEY) AND AFFILIATED COMPANIES, PRELIMINARY COMBINED BALANCE SHEET, DECEMBER 31, 1912.

Preliminary Combined Balance Sheet of the Company as of December 31, 1912 (the close of its last fiscal year). Subject, as stated above, to revision when the final Balance Sheet is prepared.

ASSETS.

Property account	\$79,150,000
Deferred charges to operations.....	200,000
Fire insurance fund assets.....	1,450,000
Current assets:	
Inventories (at cost).....	\$72, 750, 000
Receivables (net).....	82, 200, 000
Cash	5, 500, 000
	<u>160, 450, 000</u>
	<u>\$241, 250, 000</u>

LIABILITIES.

Capital Stock:	
Preferred	\$60, 000, 000
Common	80, 000, 000
	<u>\$140, 000, 000</u>
Purchase money obligations.....	300, 000
Current liabilities:	
Bills payable.....	\$35, 300, 000
Accounts payable	13, 150, 000
	<u>48, 450, 000</u>
Reserves	21, 750, 000
Surplus.....	* 30, 750, 000
	<u>\$241, 250, 000</u>

* In this surplus are included the estimated net earnings for the year ended December 31, 1912, after deducting the full dividends for the Preferred and Common Stock for the year. The earnings for the year as finally ascertained will appear in the Income Account, which, together with the definitive Balance Sheet, will be issued to shareholders and furnished the New York Stock Exchange about May 1, 1913.

NOTE.—Both ¹ the foregoing balance sheets are of dates prior to the recent decrease by one-half of the Preferred and Common Stock of the Company; the sale by it to International Harvester Corporation of one-half its net assets as of December 31, 1912, and the distribution by it among its stockholders of the Capital Stock of International Harvester Corporation.

TABLE 29.—INTERNATIONAL HARVESTER COMPANY OF NEW JERSEY (FORMERLY INTERNATIONAL HARVESTER COMPANY, THE OLD COMPANY), PRELIMINARY COMBINED BALANCE SHEET FEBRUARY 1, 1913.

Preliminary Combined Balance Sheet (including the assets and liabilities of its affiliated companies) as of February 1, 1913, subject to revision when the final Balance Sheet of the Company has been completed.

ASSETS.

Property account: Real estate and plant property (less depreciation reserve)	\$43, 800, 000
Fire insurance fund assets.....	725, 000
Current assets:	
Inventories (at cost).....	\$39, 450, 000
Receivables (net)	32, 000, 000
Cash	3, 000, 000
	<u>74, 450, 000</u>
	<u>\$118, 975, 000</u>

¹ The other balance sheet referred to in this note is the Combined Balance Sheet of the International Harvester Co. for December 31, 1911.

		LIABILITIES.
Capital Stock:		
Preferred	-----	\$30,000,000
Common	-----	40,000,000
		\$70,000,000
Purchase money obligations	-----	300,000
Current liabilities:		
Bills payable	-----	* \$20,300,000
Accounts payable	-----	8,425,000
		28,725,000
Reserves (miscellaneous)	-----	4,575,000
Surplus	-----	15,375,000
		\$118,975,000

* This does not include the \$10,000,000 unsecured loan due in 1921 or the \$5,000,000 Three-Year Five Per Cent Gold Notes, payment of which has been assumed by the New Corporation. This indebtedness remains, however, a contingent liability of the Old Company.

NOTE.—The above preliminary balance sheet is based upon the following assumptions: (1) that the Capital Stock of the Old Company has been decreased to \$30,000,000 Preferred Stock and \$40,000,000 Common Stock; (2) that the Capital Stock, Preferred and Common, of International Harvester Corporation (the New Corporation) has been distributed among the stockholders of the Old Company, and (3) that the agreement between Old Company and the New Corporation in respect of the division of assets and the assumption by the New Corporation of the Old Company's \$10,000,000 unsecured loan, due 1921, and of \$5,000,000 of the Old Company's Three-Year Five Per Cent Gold Notes has been performed.

TABLE 30.—INTERNATIONAL HARVESTER CORPORATION, PRELIMINARY COMBINED BALANCE SHEET, FEBRUARY 1, 1913.

The following is a Preliminary Combined Balance Sheet of this Corporation (including the assets and liabilities of its affiliated companies) as of February 1, 1913, based upon the International Harvester Company's (the old Company's) preliminary balance sheet of December 31, 1912, and also upon the assumption that the agreement between the Corporation and the old Company in respect of the division of assets and the assumption of the \$15,000,000 of indebtedness of the old Company by the new Corporation has been performed. While this balance sheet gives with close approximation the condition of the corporation, it will be subject to revision when the definitive balance sheet of the old company as of December 31, 1912, and the final balance sheet of the Corporation has been completed.

		ASSETS.
Property account: Real estate and plant property (less depreciation reserve)		
	-----	\$20,750,000
Fire insurance fund assets	-----	725,000
Current assets:		
Inventories (at cost)	-----	35,500,000
Receivable (net)	-----	50,200,000
Cash	-----	2,500,000
		88,200,000
		\$109,675,000
		LIABILITIES.
Capital Stock:		
Preferred	-----	\$30,000,000
Common	-----	40,000,000
		\$70,000,000
Current liabilities:		
Bills payable	-----	¹ \$15,000,000
Accounts payable	-----	4,725,000
		\$19,725,000
Reserves (miscellaneous)	-----	4,575,000
Surplus	-----	15,375,000
		\$109,675,000

¹ Indebtedness of Old Company assumed by New Corporation as follows:

Unsecured Loan, due 1921	-----	\$10,000,000
Three-year Five Per Cent Gold Notes	-----	5,000,000
		\$15,000,000

The foregoing statements of assets and liabilities are too condensed to make it possible to discuss the divisions in a satisfactory manner. Moreover, one of the statements is for December 31, 1912, and the other two are for February 1, 1913, and therefore the first may not be strictly comparable with the other two. It will be noted that there is a considerable decrease in the aggregate property accounts of the two new companies (\$64,550,000) as compared with the old International Harvester Co. (\$79,350,000, including deferred charges to operations), namely, \$14,800,000. An increase, however, is found in the aggregate inventories of the two new companies as compared with the old company, namely, \$2,200,000. The decrease in the property and inventory accounts of the two new companies taken together, as compared with the old company, is therefore \$12,600,000. Corresponding to this figure there is a decrease in aggregate reserves of the two new companies as compared with the old company of an equal amount (\$12,600,000).

The effect of this division of the company with respect to a continuation of control substantially by the same interests, can not be anticipated. This plan is expressly stated to have been adopted in view of the pending dissolution suit. If intended as a part of a proposed plan of disintegration, the Bureau regards this method of division as very unsatisfactory. Obviously, it does not touch the most essential feature of the company as a combination of competitors, namely, the consolidation of the chief harvesting-machine plants of the country, and especially of the McCormick, Deering, Champion, and Osborne works.

Section 16. Proportion of business obtained by the International Harvester Co. from 1903 to 1911.

As has already been shown, the International Harvester Co. was at its organization almost exclusively engaged in the production of grain and grass harvesting machines and at the outset possessed a monopolistic position in such lines. Subsequently, it acquired certain other harvesting-machine companies, and thereafter branched out into new lines of manufacture, by absorbing existing companies or by expanding its own manufacturing activities. It is important to consider, therefore, how far the International Harvester Co. has maintained its monopolistic position in the production of harvesting machines and what position it has attained in the new lines.

For harvesting machines the data for such comparisons are practically complete, and for certain of the new lines are sufficient to give an approximately correct statement of the facts. For the International Harvester Co. the numbers of each kind of machine produced or sold in each year were reported by that company. The Bureau did not obtain statistics of the numbers produced or sold

by all the independent implement manufacturers competing with the International Harvester Co., but it did obtain the figures for a considerable number of the more important ones, which, for some kinds of machines, gave nearly complete information of the amount of business of the independent companies. Important additional information was also submitted in the pending suit of the Government. The Bureau also obtained a considerable amount of other information concerning the importance and output of independent concerns, and in some cases trade statistics and trade estimates of the total output.

The censuses of 1905 and 1910 give statistics for the years 1904 and 1909 for the total production of the United States for certain kinds of farm machinery, with which the production of the International Harvester Co. for these years may also be compared.

HARVESTING MACHINES.—In considering the proportion of the business controlled by the International Harvester Co. during this period, it is convenient to take up, first, the data for harvesting machines, and, subsequently, those for other agricultural implements which it manufactures.

The census data for the production of harvesting machines for the years 1904 and 1909 may be considered first; these are compared with the production of the International Harvester Co. for the same years in the following table:

TABLE 31.—TOTAL PRODUCTION OF SPECIFIED HARVESTING MACHINES MADE IN UNITED STATES, ACCORDING TO THE CENSUS, COMPARED WITH THE DOMESTIC PRODUCTION OF THE INTERNATIONAL HARVESTER CO.¹ IN 1904 AND 1909.

Machine.	1904			1909		
	United States.	Inter-national Harvester Co.	Per cent Inter-national Harvester Co.	United States.	Inter-national Harvester Co.	Per cent Inter-national Harvester Co.
Binders and headers.....	108,810	94,552	86.7	129,274	111,094	85.9
Mowers.....	267,692	221,186	82.6	² 359,264	279,589	77.8
Reapers.....	60,996	45,685	74.9	58,294	44,980	77.2
Rakes.....	236,297	³ 167,667	71.0	266,260	³ 183,996	69.1
Tedders.....	35,745	18,815	52.6	34,396	25,184	73.2
Corn harvesters.....	6,924	4,853	70.1	19,693	14,874	75.5

¹ The foreign production of International Harvester Co., which is excluded from this table, was chiefly in Canada.

² Includes combined mowers and reapers.

³ Includes side delivery and sweep rakes.

The foregoing table indicates some decrease in the proportion of harvesting machines in the hands of the International Harvester Co. in 1904 as compared with the situation at the time of the merger in 1902. (See p. 92.) This is the case at least for the three lines

previously compared—binders, mowers, and rakes. Comparing 1904 and 1909, there was, on the whole, very little change, the percentages falling slightly for binders and rakes and a little more for mowers, but increasing a little for reapers and corn harvesters, and considerably for tedders.

The Bureau's information as to the numbers of each kind of harvesting machine produced or sold by the International Harvester Co. is, as stated above, practically complete for the whole period 1903 to 1911, inclusive. For the independent manufacturers, extensive information as to the numbers produced or sold was obtained for certain lines of machines, especially the chief harvesting machines, and this information generally covered the same period, 1903 to 1911, though in some cases it was impracticable to get data from a few companies for rakes for some of the earlier years. For binders and mowers practically all the independent output of the United States was reported, though returns for one company are lacking for one year. The data obtained are sufficient to show the position of the International Harvester Co. with substantial accuracy. For rakes, the data are similar to those for binders and mowers, except that a few of the independents are not included. In the case of rakes, therefore, the information is not complete enough to show fully the extent of independent production without the use of estimates.

Binders.—The following table shows the numbers of binders produced by the International Harvester Co. in the United States and the numbers produced or sold by the independents for the years 1902 to 1911, inclusive.

TABLE 32.—PRODUCTION OF BINDERS OF THE INTERNATIONAL HARVESTER CO. IN THE UNITED STATES COMPARED WITH THAT OF INDEPENDENT COMPANIES, 1902-1911.¹

Year.	International Harvester Co. ²		Independent companies.		Year.	International Harvester Co. ²		Independent companies.	
	Number.	Per cent.	Number.	Per cent.		Number.	Per cent.	Number.	Per cent.
1902.....	180,401	90.9	18,128	9.1	1907.....	117,854	88.5	15,264	11.5
1903.....	184,817	94.2	11,448	5.8	1908.....	104,547	89.7	12,054	10.3
1904.....	87,371	89.1	10,649	10.9	1909.....	100,204	87.1	14,848	12.9
1905.....	102,832	90.0	11,469	10.0	1910.....	125,382	87.0	18,701	13.0
1906.....	108,666	87.0	16,233	13.0	1911.....	146,981	87.0	21,923	13.0

¹ For independents the numbers sold were used where production was lacking, but as a rule where both sales and production were reported by independents the differences in the figures were unimportant.

² For 1902 comprises the five companies originally consolidated as the International Harvester Co.

An examination of the above table shows a marked increase in the International Harvester Co.'s proportion of the production of binders in 1903, namely, 94.2 per cent, as compared with the business of the companies merged in 1902, namely, 90.9 per cent. This was due

chiefly to the acquisition of the Osborne company's business. Thereafter there was a distinct and almost uninterrupted decrease, namely, from 94.2 per cent in 1903 to 87.0 per cent in 1911. Compared with 1902, however, the decrease was only about half as much. The independent companies showed an increase from 5.8 per cent in 1903 to 13.0 per cent in 1911; but it is apparent that the original monopolistic position of the International Harvester Co. in the binder business of the United States was not seriously affected by this increase of independent production.

For certain purposes it is important also to consider the relation of the domestic sales of binders for the International Harvester Co. and the independents. Very extensive data were obtained on this matter by the Bureau, particularly from the record in the present suit of the Government against the International Harvester Co. Data are not available for 1902, but the facts from 1903 to 1911 are shown in the following table:

TABLE 33.—NUMBER OF BINDERS SOLD IN THE UNITED STATES BY THE INTERNATIONAL HARVESTER CO. COMPARED WITH DOMESTIC SALES OF INDEPENDENT COMPANIES, 1903-1911.¹

Year.	International Harvester Co.		Independent companies.		Year.	International Harvester Co.		Independent companies.	
	Number.	Per cent.	Number.	Per cent.		Number.	Per cent.	Number.	Per cent.
1903.....	104,273	96.3	4,042	3.7	1908.....	64,368	91.2	6,214	8.8
1904.....	86,382	94.7	4,834	5.3	1909.....	86,006	90.5	9,038	9.5
1905.....	89,699	93.2	6,545	6.8	1910.....	92,937	88.4	12,158	11.6
1906.....	92,574	90.7	9,511	9.3	1911.....	97,335	87.2	14,315	12.8
1907.....	89,627	92.2	7,588	7.8					

¹ For independents, production was used where numbers sold were lacking, but only for companies which had little or no export business. (See note 1, Table 32.)

The International Harvester Co.'s proportion of the number of binders sold in the United States corresponds very closely with its proportion of the number produced in the United States. From 1903 to 1911 there was an almost uninterrupted decrease, namely, from 96.3 per cent to 87.2 per cent. While the number sold by the independent companies increased from 3.7 per cent in 1903 to 12.8 per cent in 1911, they still had only a small fraction of the total. The International Harvester Co., therefore, substantially maintained its highly monopolistic position in this branch of the business.

Mowers.—The same comparison may be made for mowers as for binders. The table following shows the number of mowers produced by the International Harvester Co. in the United States and the number produced or sold by the independent companies for the years 1902 to 1911, inclusive.

TABLE 34.—PRODUCTION OF MOWERS OF THE INTERNATIONAL HARVESTER CO. IN THE UNITED STATES COMPARED WITH THAT OF INDEPENDENT COMPANIES, 1902-1911.¹

Year.	International Harvester Co. ²		Independent companies.		Year.	International Harvester Co. ²		Independent companies.	
	Number.	Per cent.	Number.	Per cent.		Number.	Per cent.	Number.	Per cent.
1902.....	324,180	82.5	68,913	17.5	1907.....	260,764	81.6	58,730	18.4
1903.....	318,505	87.7	44,755	12.3	1908.....	276,349	82.1	60,467	17.9
1904.....	221,186	82.1	48,309	17.9	1909.....	279,589	80.7	66,970	19.3
1905.....	250,677	84.1	47,468	15.9	1910.....	260,526	77.7	74,630	22.3
1906.....	213,269	79.0	56,860	21.0	1911.....	241,285	76.6	73,886	23.4

¹ For independents, the numbers sold were used where production was lacking. (See note 1, Table 32.)

² For 1902, comprises the five companies originally consolidated in the International Harvester Co.

As in the case of binders there was a marked increase in the percentage in 1903, namely, 87.7 per cent, as compared with the business of the companies merged in 1902, namely, 82.5 per cent, due to the acquisition of the Osborne company's business. Thereafter the proportion of the International Harvester Co. varied somewhat but showed generally a declining tendency; the proportion in 1911 was only 76.6 per cent, as compared with 87.7 per cent in 1903. The independents show a corresponding increase, namely, from 12.3 per cent in 1903 to 23.4 per cent in 1911. In spite of this large increase in independent production, the International Harvester Co. retained a substantially monopolistic position in this line of harvesting machines also.

The domestic sales of mowers by the International Harvester Co. and the independents for the years 1903 to 1911 (data for 1902 not being available) are compared in the following table:

TABLE 35.—NUMBER OF MOWERS SOLD IN THE UNITED STATES BY THE INTERNATIONAL HARVESTER CO. COMPARED WITH DOMESTIC SALES BY INDEPENDENT COMPANIES, 1903-1911.¹

Year.	International Harvester Co.		Independent companies.		Year.	International Harvester Co.		Independent companies.	
	Number.	Per cent.	Number.	Per cent.		Number.	Per cent.	Number.	Per cent.
1903.....	208,318	91.0	20,731	9.0	1908.....	155,584	82.6	32,719	17.4
1904.....	187,985	89.0	23,148	11.0	1909.....	162,549	79.3	42,533	20.7
1905.....	166,577	86.5	26,009	13.5	1910.....	165,386	76.6	50,432	23.4
1906.....	161,917	82.8	33,576	17.2	1911.....	141,330	74.6	48,121	25.4
1907.....	181,721	84.7	32,896	15.3					

¹ For independents, production was used where the number sold was lacking, but only for companies which had little or no export business. (See note 1, Table 32.)

While on the whole the proportion of the International Harvester Co. was not greatly different for domestic sales than for production in the United States, there were decided variations from year to

year, and there was a greater decline during the whole period with respect to domestic sales. From 1903 to 1911 the proportion of domestic sales decreased from 91 per cent to 74.6 per cent, the independent companies showing a corresponding increase, namely, from 9 per cent to 25.4 per cent. In spite of the large increase in the number of independent mowers sold in the domestic market, the International Harvester Co. had in 1911 three-quarters of the domestic business, so that its position was still distinctly monopolistic.

Rakes.—While the Bureau had data as to the number of rakes produced by the International Harvester Co., and also a large proportion of the total number produced or sold by the independent rake manufacturers, a statement of the total production for the years 1902 to 1911, inclusive, would involve estimating a small fraction of the output for each year.¹ Specific estimates have been made by the Bureau, however, for the unreported production for 1902 and 1911, namely, 13,000 rakes in 1902 and 14,400 rakes in 1911. These estimates added to the total reported production would indicate that the proportion of the five companies originally merged in the International Harvester Co. in 1902 was 67.8 per cent of the total production of rakes, and that in 1911 the International Harvester Co. had about 72 per cent. In the opinion of the Bureau, the above estimates of the production of independent makers of rakes are liberal and the proportion of the International Harvester Co. is not overstated. Attention should be called to the fact that in 1903 the proportion of the International Harvester Co. was much higher than for the five companies originally merged in 1902, because the large production of rakes of the Osborne plant were included in that year. The proportion of the International Harvester Co.'s output of rakes in 1903 probably exceeded 80 per cent of the total production in that year. It was for this reason that the International Harvester Co. had a larger proportion of the production in 1911 than the five companies

¹ The number of rakes produced by the International Harvester Co. (in 1902 the figures are for the five companies originally merged in the International Harvester Co.) and the number produced or sold by independent manufacturers for which data were obtained by the Bureau were as follows:

Year.	International Harvester Co.	Independent companies reporting.	Year.	International Harvester Co.	Independent companies reporting.
1902.....	174,950	69,960	1907.....	174,482	41,982
1903.....	239,406	37,575	1908.....	185,136	45,097
1904.....	167,667	35,232	1909.....	183,996	51,780
1905.....	135,169	37,242	1910.....	192,329	57,836
1906.....	143,056	38,814	1911.....	164,246	49,625

NOTE.—The foregoing figures include sulky, side delivery and sweep rakes. Where numbers produced by independent companies were lacking, the numbers sold have been used instead. In general, the foregoing data are estimated to comprise about 95 per cent, more or less, of the total output. In 1903 the large falling off of the reported independent production was due to the acquisition of the Osborne Company by the International Harvester Co.

originally merged in 1902, although as between 1903 and 1911 there was a decided decrease in its proportion of the total output.

The International Harvester Co. clearly still retains, however, a substantially monopolistic control of this branch of the trade.

A comparison of the domestic sales of the International Harvester Co. and the independents would show similar proportions, the percentage of the International Harvester Co. being a little lower than for production in the United States, as shown above. This appeared for the tabulation of domestic sales reported, and although the Bureau did not make estimates of the unreported domestic sales for each year, would unquestionably apply to them also. The Bureau made, however, an estimate of the unreported domestic sales for 1911, returns being had for about 93 per cent of the total domestic business, and on this basis the proportion of the International Harvester Co. was 68 per cent.

Binder twine.—For binder twine, the Bureau had the figures for the quantity produced and sold by the International Harvester Co. in the United States, and also some data of a similar character in respect to the independents, besides the various State prisons which produce twine. The Bureau also obtained estimates from experts in the twine business for the years 1909 and 1911 with regard to the output of the independent manufacturers. On the basis of these data, the Bureau estimates that in 1909 the total production of twine in the United States was 116,000 tons, of which the International Harvester Co. produced about 64,000 tons, or about 55.1 per cent of the total. Similarly for 1911, the Bureau estimates that the total production of twine in the United States was 128,700 tons, of which the International Harvester Co. produced 80,700 tons, or about 62.7 per cent. The data with respect to twine were inadequate, however, for making an estimate for the proportion of the quantities sold by the International Harvester Co. in the United States.

NEW LINES.—The International Harvester Co., which established a monopolistic position in harvesting machinery through combination, and subsequently consolidated its control therein by the acquisition of competing concerns, greatly expanded its business by entering into new lines, as described above. In establishing its new lines it was greatly aided by its monopolistic position in the harvesting-machine business, because the system of marketing agricultural implements is such that it was in a position to force the sale of its new lines, as will be described in more detail in Chapter VII. Consequently, the International Harvester Co. has been able to develop its trade in new lines more rapidly than would have been practicable for an ordinary concern.

It is not possible to make a statement which will show fully the extent of its development in the new lines, as complete statistical data are not available. For the years 1904 and 1909 census data are obtainable, but the machines enumerated by the census do not comprise all of the important new lines manufactured by the International Harvester Co., and in some cases when such machines are enumerated the description is not precisely the same as that of the International Harvester Co.

However, the census data for 1904 are of no particular interest, inasmuch as the International Harvester Co. had not then extended its business in an important degree to any of the new lines, except for harrows. For harrows, an important line then manufactured by the International Harvester Co. was disk harrows, of which it manufactured 11,302 in 1904, as compared with the total production in the United States, according to the census, of 104,323. The proportion of the International Harvester Co., therefore, to the total production was about 10.8 per cent.

Before 1909 the International Harvester Co. had already begun the production of several important new lines, but the census does not furnish data for some of the most important, namely, manure spreaders, cream separators, gasoline engines, and tractors. The only farm machinery which the International Harvester Co. made in considerable quantities for which a comparison with the census data is possible are farm wagons, wheeled cultivators, disk harrows, spring-tooth harrows, hay stackers, hay loaders, and corn shredders. This comparison is shown in the following table:

TABLE 36.—TOTAL PRODUCTION OF CERTAIN KINDS OF FARM MACHINERY IN THE UNITED STATES, ACCORDING TO THE CENSUS, COMPARED WITH THE PRODUCTION OF THE INTERNATIONAL HARVESTER CO. IN THE UNITED STATES, IN 1909.

Machine.	United States.	International Harvester Co.	Per cent of International Harvester Co.
Disk harrows.....	193,000	50,010	25.9
Spring-tooth harrows.....	112,832	¹ 55,369	49.1
Wheeled cultivators.....	435,429	² 50,180	11.5
Farm wagons.....	429,952	³ 55,917	13.0
Hay stackers.....	17,212	4,169	24.2
Hay loaders.....	34,705	7,217	20.8
Corn shredders.....	⁴ 1,240	691	55.7

¹ Number not specifically reported; assumed equal to all harrows other than peg-tooth and disk harrows.

² One and two horse cultivators.

³ Including wagon gears.

⁴ Corn huskers and shredders.

Of the new lines made by the International Harvester Co. which are included in the above table, one of the most important are the tillage implements, particularly harrows. In disk harrows and spring-tooth harrows the International Harvester Co. had no less than 25.9 per cent and 49.1 per cent, respectively, of the total production in the United States in 1909. The International Harvester Co.'s proportion of cultivators was much smaller. Comparing the one and two horse cultivators of the International Harvester Co. with the wheeled cultivators reported by the census, its proportion was only 11.5 per cent. For the tillage lines taken together, however, the International Harvester Co. had acquired in 1909 a very important part of the total production in the United States.

In farm wagons the proportion produced by the International Harvester Co. of the total production of the country in 1909 was 13.0 per cent, although it entered this branch of the industry only about four years before the date of the census.

In hay stackers and hay loaders, which are the only lines of "hay tools" for which comparative data are available, the production of the International Harvester Co. was 24.2 per cent and 20.8 per cent, respectively, of the total production of the United States.

Although the number produced in the United States is not large, the figures for corn shredders illustrate the strong position of the International Harvester Co. in corn machines, other than corn binders. The International Harvester Co.'s total proportion of the corn-shredder output in 1909 was 55.7 per cent.

While the International Harvester Co. makes some other new lines for which comparison might be possible, such as seeders, corn planters, corn shellers, and drills, it is sufficient to note here that its output in 1909 was not a large proportion of the total, although if the particular kinds could be segregated and compared, its proportion in some cases might be considerable.

For the new lines, as in the case of the harvesting machines, the Bureau obtained most of its information directly from the producers, the data in most cases covering a period of nine years. Similar information was also produced in the Government's suit with respect to the domestic sales of certain companies. These data, however, were not sufficiently complete to make it possible to compare the production of the International Harvester Co. with that of independents year by year. For the year 1911, however, the Bureau is able to make an approximately correct statement of the proportion of production controlled by the International Harvester Co. for disk harrows and spreaders. These percentages are obtained by adding to the reported output of the International Harvester Co. and the principal independents, estimates of the output of a comparatively few independents not reported. The results are shown in the table following.

TABLE 37.—DOMESTIC PRODUCTION OF DISK HARROWS AND MANURE SPREADERS BY THE INTERNATIONAL HARVESTER CO. IN 1911 COMPARED WITH THE TOTAL PRODUCTION IN THE UNITED STATES.

Item.	Disk harrows.	Manure spreaders.
Production of International Harvester Co.	83,333	41,103
Reported production of independents ¹	82,124	23,033
Estimated production of independents not reported	28,000	10,500
Total production in the United States, partly estimated	193,457	74,636
Per cent of International Harvester Co. to total	43.1	55.1

¹ Includes number sold for independents not reporting production. (See note 1, Table 32.)

According to the foregoing table, the International Harvester Co. had about 43 per cent of the total production of disk harrows in the United States in 1911, and about 55 per cent of the production of manure spreaders. There was a striking increase in its proportion of disk harrows in 1911 as compared with 1909 (see Table 36), due to a great increase in its own production. Its position in respect to domestic sales was not quite so strong on account of the fact that it has developed its export trade to a relatively greater extent than the independent manufacturers in these lines.

On a similar basis of reports and estimates, the Bureau finds that the International Harvester Co. sold at least 50 per cent of the total number of manure spreaders sold in the United States, and at least 37 per cent of the number of disk harrows.

For farm wagons, the Bureau had not only the numbers produced and sold by the International Harvester Co. in the United States, but also for a considerable number of the chief independent manufacturers. In addition to these figures the Bureau obtained statistics, compiled by a concern in the wagon trade, a large proportion of which was based on reports from the wagon makers. These trade statistics were most complete for the year 1910, so that the figures will be first presented for that year.

TABLE 38.—DOMESTIC PRODUCTION OF FARM WAGONS BY THE INTERNATIONAL HARVESTER CO. IN 1910 COMPARED WITH THE TOTAL PRODUCTION IN THE UNITED STATES.

Item.	Farm wagons. ¹
Production of the International Harvester Co.	59,586
Reported production of independents ²	294,550
Estimated production of independents not reported	93,900
Total production in the United States, partly estimated	448,036
Per cent of International Harvester Co. to total	13.3

¹ Including wagon gears.

² Includes number sold for independents not reporting production. (See note 1, Table 32.)

This table, which, including estimates, is practically complete, indicates that the International Harvester Co. had in 1910 about 13.3 per cent of the total production of farm wagons of the United States. This may be compared with the census figure of 1909 of 13.0 per cent. The reports for 1911 were not quite so complete as for 1910, as already stated, but a comparison of the detailed figures indicates a considerable falling off in independent production in 1911 as compared with 1910, and a distinct increase in the production of the International Harvester Co., namely, from 59,586 in 1910 to 66,460 in 1911. The Bureau, therefore, estimates that in 1911 the International Harvester Co. had about 15 per cent of the number manufactured in the United States and over 13 per cent of the number sold in the domestic market.

Section 17. Recent development of full-line concerns.

A noteworthy recent development of the farm-machinery business has been the expansion of several old concerns not previously engaged in the harvesting-machine business into that line of manufacture. This development has occurred particularly with respect to certain large concerns making plows and a variety of other lines, such as Deere & Co., the Emerson-Brantingham Co., and the Moline Plow Co., while certain other important concerns, such as the J. I. Case Threshing Machine Co. and M. Rumely Co., according to reports, have contemplated an expansion into the harvester business.

Deere & Co., as already shown (p. 51), developed from a plow manufacturer into a full-line concern, making, in addition to plows, tillage implements, drills, planters, wagons, manure spreaders, etc., besides jobbing some other lines of implements. It was recently re-organized and has an authorized capital stock of \$65,000,000, of which \$58,007,100 is issued. It entered the harvesting-machine line of business several years ago through the acquisition of the Dain mowers, rakes, and hay tools. Very recently it developed a binder and has constructed a new factory for the production of harvesting machines. Its binders were first marketed in 1912, but it is already one of the largest of the independent binder makers. It is also at the present time one of the largest of the independent mower concerns. Its importance in the harvesting-machine trade is measured more by the great strength of its selling organization than by its present volume of production.

The Moline Plow Co. (see p. 51), like Deere & Co., developed from a plow manufacturer into a full-line concern. Among its principal products are plows, tillage implements, drills, spreaders, wagons, and rakes. In 1913 the company is reported to have arranged for an increase of its capital stock from \$9,000,000 to \$30,000,000. Recently it entered into an arrangement with Adriance, Platt & Co., inde-

pendent manufacturers of harvesting machinery, for selling the goods of both companies in eastern markets, and in 1913, according to published reports, it acquired this concern. (See p. 49.) The factory of the latter concern, which is located at Poughkeepsie, N. Y., although well located for the export trade, is not so well situated for the sale of harvesting machines in the United States. The Moline Plow Co. has a well-developed selling organization which is an important factor in enabling it to enter the harvesting-machine business.

The Emerson-Brantingham Co. (see p. 52), which for a long time has been a manufacturer of plows, tillage implements, planters, seeders, mowers, and rakes, in 1912 took over the business of certain companies producing chiefly thrashing machinery, traction engines, gas engines, wagons, and hay tools. On this account it reorganized its business and increased its authorized capitalization to \$50,000,000, of which about \$22,000,000 has been issued. Although it has not entered the binder trade, it has undoubtedly become a more important factor in the mower business on account of these important additions, which give it a fairly full line of farm machinery.

The expansion of these various concerns is one of the most significant features of the farm-machinery industry to-day, and one involving possibilities of great importance. It should be noted that these new developments have been made on the principle of carrying a full line of farm machinery, although no company, not even the International Harvester Co., has a really complete line.

CHAPTER V.

PROFITS AND PRICES OF THE INTERNATIONAL HARVESTER CO.

Section 1. Character of the accounts of the International Harvester Co.

A correct determination of the profits of the International Harvester Co. is peculiarly difficult because of the unsatisfactory character of its accounts during the first years of its existence. The appraisal of its property as finally adopted, and upon which its first formal balance sheet was based—namely, that for the year ended December 31, 1906—was not completed until several years after the organization of the company. The present comptroller of the International Harvester Co., who first assumed his duties with the company as assistant comptroller in the beginning of 1904, informed the Bureau that this 1906 balance sheet was the first authentic and official balance sheet made up by the company. He stated explicitly that there were no authentic or official balance sheets for the years 1903, 1904, and 1905, although he had made some private statements for his own use based on arbitrary figures for the opening entries. On the other hand, all necessary books of original entry were kept to show the business done from the beginning of operations, and although no opening entries were made of assets and liabilities, it was possible, according to the comptroller of the company, to make statements of current profit and loss. It would seem, however, that the company lacked a complete basis for its depreciation accounts. Again, for the determination of manufacturing costs, it is obviously necessary to have the inventory at the beginning of business. Apparently for this purpose the inventories of the predecessor companies were used, while subsequently in making the final statement of profit and loss for 1903 a radical adjustment was made in these figures to suit the policy of the company.

This is such an extraordinary situation for a large corporation that it is important to give in some detail the statements of the comptroller of the company to the Bureau. The essential features of his statements are given in the following excerpts:

Q. I understand that you came to the company some time in 1904?—A. In the beginning of 1904. I was engaged in the middle of December, 1903, but I really came in 1904.

Q. What time in 1904?—A. Right at the beginning.

Q. Were you then assistant comptroller?—A. Yes. * * *

Q. And anything that the comptroller would know had to come through you?—A. Yes; about the accounts.

Q. Now, as I understand it, there was no combined balance sheet made up for that year?—A. No, sir; there was no balance sheet made up. I had some preliminary figures which were never consummated into a balance sheet.

Q. I understood from some previous files of the Bureau—for example, conversations with you—that there were approximate statements of profit and loss made up, but no combined balance sheet made up for 1904, taking one year at a time.—A. We went back and made them up.

Q. I am not speaking about those made up subsequently, but made up at that time in 1904.—A. No, sir; not until December 31, 1906, was any balance sheet compiled which was authentic.

Q. A combined balance sheet of the companies?—A. Yes, sir.

Q. You say "authentic." Was there an approximate one?—A. Not that I remember that was ever submitted to anybody.

Q. Did you have profit and loss accounts combined made up?—A. Yes, sir; we have a statement of profit and loss.

* * * * *

Q. That was the condition in 1904—was it the same condition in 1905?—A. Yes, sir.

Q. But in 1906 you got up a combined balance sheet and combined profit and loss account that you considered authentic?—A. And it was submitted to the board, and that was the first balance sheet, as I recollect, that the board ever considered.

Q. Now, in making up that you used for property paid for by plant stock a total figure of \$67,026,000 odd?—A. That is right; yes.

Q. That was a statement of the appraisal of the plant, was it not—of the plant property conveyed as of the beginning of business in 1902?—A. Yes, sir; that was a summary of the appraisals as of October 1, 1902.

Q. That figure was not made up, however, until that time, was it?—A. Well, the information had never been collected in that form until that time.

* * * * *

Q. I understand, then, that the value of the property paid for by plant stock and appraised at \$67,000,000 odd was not established until the beginning of 1907, when you made up your balance sheet for the calendar year 1906, and that all the items for making up that statement for the appraised value of the property were not available until that time, and hence any balance sheet made up for the year 1906 would not agree with previous unaccepted or unauthentic balance sheets made up for previous years. That is correct, is it?—A. I will say this. The International Harvester Co. in the spring of 1904 was furnished details of all the appraisals which were made under the supervision of Jones, Caesar & Co. The latter company was instructed to disregard book values, for the reason that owing to systems of bookkeeping prevailing with the vendor companies the book values were meaningless, and was instructed to see that an independent appraisal was made of each piece of property which the International Harvester Co. purchased, and that

a fair value and no more was given to each piece of property. In the spring of 1904 the details of all appraisals made under the supervision of Jones, Caesar & Co. were turned over to the International Harvester Co. for their information in connection with their accounts, but inasmuch as Mr. Perkins himself made the appraisal of the steel group of properties and timberlands, no details of these appraisals were available. Therefore, the company employed competent engineers and valuers to appraise the steel group of properties and the timberlands. These appraisals were commenced some time in the year 1905 and were completed in 1906, and the total of all appraisals was then collected and given effect to in the books and in the combined balance sheets of December 31, 1906.

* * * * *

Q. Up to the establishment of your 1906 balance sheet you did not attempt to establish a combined plant account, or any property account on the basis of the appraisals. You kept no property account on that basis. Is that right?—A. I think so.

Q. You kept no property account up to that time on the basis of the appraisals; whatever property account you had came down from the prior companies?—A. Not from the prior companies; no, sir. The property account from October 1, 1902, to December 31, 1906, would include all capital expenditures during that period.

Q. But nothing as to what you started with—that is, no figure that you use to-day in your books—it did not include any figure that you use to-day as coming down from prior to 1902?—A. As I recollect it, the book entry of the valuation of the physical property acquired was not actually made until the fiscal year 1906, for the reason that certain items of appraisal had not been definitely determined.

Q. You did keep, however, general books of account sufficient to determine all other items going into the balance sheet, such as cash, bills receivable and payable, and inventories and the like?—A. Every book of account necessary to the proper conduct of the business was kept from October 1, 1902. The only exception to this statement is the condition respecting the opening entry regarding the valuation of the property. * * *

Q. * * * During this period prior to the making up of the 1906 balance sheet, on what were the unaccepted or unauthentic balance sheets, before referred to, based, in respect to plant property? Were they based on the book values of the old companies?—A. No, sir; we never knew what the book values of the old companies were. We never had access to their books in any way, and had no idea of the book values.

Q. Did you have any balance sheets for the divisions?—A. The balance sheets of the divisions contain operating accounts only and did not deal with capital accounts.

* * * * *

There never had been prior to 1906 any capital stock entry in the books and the equivalent property item on the asset side of the balance sheet. No balance sheet was submitted to the

board of directors prior to the balance sheet of December 31, 1906.

Q. Or to the finance committee?—A. Or to the finance committee—for the reason that the appraisals were not finally concluded until that time.

Q. In the tentative balance sheets that you made up, as I understand for your own use, did you enter an arbitrary or hypothetical figure for the plant account as of the date when you started, or did you simply make no entry whatever?—A. As stated, any balance sheet prepared was solely for the private use of the comptroller and myself. I had understood from the outset that no additional stock other than that covered by the award of Mr. Perkins in August, 1903, would be issued for good will or patents, etc., but we did think that it might be advisable for the company to commence business with a small surplus, and I recollect that in one tentative balance sheet we showed \$120,000,000 capital stock and \$12,000,000 surplus.

* * * * *

This tentative figure of surplus, \$12,000,000, was subsequently replaced by the surplus of \$7,076,229, being the excess of the valuation of the physical property acquired, \$67,076,229, in excess of the \$60,000,000 capital stock issued therefor.

Q. Do I understand that you made up this tentative balance sheet to give you personally, as an officer of the company, an idea of where the company stood at the end of each year, or as often as you made it up—some idea of the relative position of the company at one time as against its position at a prior date? That is to say, you wanted to know whether the company had made money during a given period or lost money; or do I understand that it was not necessary for this purpose?—A. No, sir. The fact that the opening entries were not really entered in the books until the fiscal year 1906 had no effect upon the determination of profits annually from 1903 to 1906.

Q. Except as it made it possible to determine your depreciation; is not that true?—A. Well, the difference in depreciation actually used in the books in 1903 to 1906 from the depreciation used after the appraisal values were entered in the books would not be a figure of great moment.

* * * * *

Q. Do you not need changes in inventories to determine satisfactorily the profits of the year?—A. The trading inventories? * * * Yes, sir.

Q. In the first year, though, did you have inventories to start with?—A. Yes, sir.

Q. Where did you get those inventories; that is, as of October 1, 1902? You had the trading inventories as of October 1, 1902?—A. Yes. I do not remember whether the inventories as of October 1, 1902, were entered on the division books or not. I doubt if they were.

* * * * *

Q. But whether you carried inventories on the division books or not, you had certain figures of inventories in the general office books from the day the company commenced business?—A. Yes—well, not exactly from the day the company commenced business, but for the year 1903 the inventory at the beginning of that season was entered on the books before the profit and loss was ascertained for that year.

Q. And then you entered the appraisal inventory?—A. And then the appraisal inventory was entered at the figure \$18,155,000.

Q. Your appraisal inventory was \$25,000,000 odd?—A. That is correct.

Q. You apparently made a change in your inventory to \$18,000,000 as of December, 1902?—A. As of October 1, 1902; yes.

Q. You made it in December, 1902, as of October 1, 1902; is that correct? Was that change actually resolved on in December, 1902, or subsequently?—A. It was resolved on in the spring of 1904 for use in 1903 accounts. I do not recollect the exact date at which that figure was determined upon, but it was around that time.

* * * * *

Q. How did you get the cost of production for 1903 if they did not have the inventory until 1904 some time? How did they know what to charge up for the production?—A. I could not tell you. I will have to find out.

Q. Of course you have to have that now?—A. Yes; the cost of production is determined from the factory books.

Under these circumstances it is not strange that the accounting officers of the company were very reticent about the real conditions of the accounts and the financial condition of the company prior to 1906. Nevertheless, at the request of the Bureau and before the real facts above given as to the situation had been fully developed, they prepared balance sheets and profit and loss statements for the years 1903, 1904, and 1905 which were admittedly derived by working backward from the established balance sheet of 1906. These statements included not only the combined balance sheets for the International Harvester Co. but also balance sheets for each of the subsidiary companies.

Although the International Harvester Co., therefore, did not have complete and proper accounts for the years prior to 1906, so far as the Bureau could ascertain, yet they did have necessary books of original entry for current business, from which the conditions of the business could be determined approximately, at least if the value of the inventories were properly established. A verification of the balance sheets which they submitted to the Bureau regarding the first three years of their business was made, in so far as necessary to reconcile them with the general books of account, but to have carried such verification further would have been an enormous task and one

which would have been practically impossible with respect to the inventories.¹ It is expressly denied by the comptroller that the different works or "divisions" (formerly operated by the several predecessor companies) continued to keep their accounts on the same basis as the predecessor companies. If such accounts had been kept, it is clear that they could not have agreed with the appraised valuation of plant and property acquired by the International Harvester Co.

The officials of the International Harvester Co., furthermore, for a long time refused to submit any balance sheets or similar data as to the situation of the predecessor companies and, finally, when they did do so they submitted such data for only three companies—the McCormick, Deering, and Milwaukee companies. The reasons given and repeatedly insisted on with great emphasis and appearance of sincerity, were (1) that the merger was originally formed without knowledge of the book values of the predecessor companies, at least as regards some of the most important items, such as plant and fixed property, and that, furthermore, the balance sheets and other accounts of such predecessor companies were not in the possession of or accessible to the International Harvester Co.; and (2) that the different interests which went into the combination were so jealous of each other, and there had been so much friction in establishing the original valuation, that these several interests were unwilling to show their original balance sheets and book values of property for fear of reviving old animosities. The Bureau, however, did not consider it practicable to dispense with such important data for the determination of the original value of the investment.

As the stock of the International Harvester Co. was very closely held by the parties forming the original merger, it was not necessary at first to publish any formal statement of the business condition of the company, while the extremely unfavorable showing which it made in the beginning was something which the parties interested could have had no motive for publishing. This would be the case especially if they hoped later on to list their stock and put it on the market, which was the course actually adopted in 1908. As the companies which originally went into the merger made for the most part large profits in 1902 and for several years preceding (see p. 63), it is somewhat surprising that the combination itself made a very bad showing in the first year of its existence. The general character of this showing, as well as the difficulty of establish-

¹ In this connection may be noted the following excerpt from a letter written by the comptroller of the company, W. M. Reay, to an agent of this Bureau, dated May 15, 1908:

It is not possible for us to compile a balance sheet of the industrial railroads at December 31, 1903, as the books and records of the railroads at that time were not kept in such shape as to permit a balance sheet now being withdrawn from them. If it will serve any good purpose of the Commissioner of Corporations we could in time estimate the approximate financial condition of our industrial railroads at that date, but will not proceed in the matter except upon special request from yourself after further consideration.

ing with certainty the exact financial status and results of the International Harvester Co. in 1903, is taken up in the following section.

Section 2. Financial results of 1903.

The financial results of 1903 were so remarkable and the manner in which they were accounted for by the company was so peculiar that the difficulty of correctly determining the true results can not be shown without a detailed discussion. This necessitates the use of statements of assets and liabilities in summary form, first, on the basis of the appraisal values, and, second, as reconstructed by the Bureau on the basis of its revised valuations of the property and assets acquired.

The kernel of the whole problem is practically suggested by a letter of the assistant comptroller of the International Harvester Co. to the finance committee of the company in 1907, which is given below. This letter was written in connection with the preparation of the first combined balance sheet of the company for the year 1906. The valuations of property referred to in the letter are the same as those used in the final appraisal and, as already noted, some of the items which went into the determination of the total amount were not fixed until a few months before this letter was written. Before considering this letter it is desirable, however, to state what was the apparent financial position of the International Harvester Co. at the outset, October 1, 1902, on the basis of the appraised values of its property, etc. This is shown in the following statement:

Assets.		Liabilities.	
Property account.....	\$42,097,689.33	Capital stock.....	\$120,000,000.00
Inventories.....	25,548,162.42	Purchase-money obligations.....	916,753.40
Bills receivable.....	1,206,775.00	Bills payable.....	2,694,172.61
Accounts receivable.....	1,995,299.93	Accounts payable.....	108,054.83
Stock subscription unpaid.....	59,851,803.34	Surplus.....	7,076,229.65
Cash.....	95,480.47		
	130,795,210.49		130,795,210.49

The property-account item of \$42,097,689.33 is derived by deducting from the total appraised value of property acquired, \$67,076,229.65, the appraised value of the inventories (\$25,548,162.42), the net receivables of the Milwaukee company (\$456,111.71), and the Plano receivables (\$39,216.25), and the adding to the remainder the excess valuation of the Milwaukee company (\$148,196.66) and the Deering purchase-money obligations (\$916,753.40) assumed by the International Harvester Co., but which in the appraisal were de-

ducted from the appraised value of the tangible property. The inventories are shown at their appraised values. The items of bills and accounts receivable and cash are from assets acquired from the Milwaukee company, except \$39,216.25 of Plano receivables. The unpaid stock subscription is \$59,851,803.34, or \$148,196.66 less than the \$60,000,000 capital stock on account of the excess value of the Milwaukee property, as already explained (p. 85).

The capital stock requires no explanation. The purchase-money obligations were acquired with Deering ore and coal properties. The bills and accounts payable were taken over from the Milwaukee company. This balance sheet shows a surplus of \$7,076,229.65 on the basis of the appraisal adopted by the International Harvester Co. With this balance sheet in mind, the following letter of the assistant comptroller of the International Harvester Co., referred to above, may now be considered:

May 14, 1907.

To the Finance Committee of the International Harvester Company.

DEAR SIRs: In response to your request for information concerning the valuation of the property acquired by this Company as of September 30, 1902, and the treatment of such values on the books and records of the Company, I beg to report as follows:

Utilizing the best information obtainable, I found the following to be the valuation of the assets of the Company other than cash working capital which were acquired as of September 30, 1902:

Real Estate, Plant and other fixed property-----	\$41, 036, 708. 60
Inventories of raw materials and supplies, Work in Process of Manufacture, and Finished Product-----	25, 548, 162. 42
Net Receivables of Milwaukee Company---	491, 358. 63
	<hr/>
	\$67, 076, 229. 65

In the above total there is no value included for the patents acquired by this Company as of September 30, 1902, and there is no value included for the good will of the businesses acquired at that date.

For the physical assets enumerated above, the Company issued \$60,000,000 par value of capital stock, and the difference between the par value of this capital stock and the valuation of those assets, viz: \$7,076,229.65, was carried to an account entitled "Surplus Created at Organization."

From this amount of Surplus Created at Organization there was then deducted the territorial and preliminary expenses incurred on the territory in the fall of 1902, principally in closing up the business transacted during the season 1902 by the companies which sold their plant and physical inventories to W. C. Lane, who, in turn, sold them to the International Harvester Company, for the reason that these expenditures so incurred in

settling up the business of the season 1902 did not contribute to the future earnings of the International Harvester Company, and were therefore a fair deduction from Surplus at Organization. These expenditures amounted to \$1,780,235.89, leaving a balance in Surplus at Organization of \$5,295,993.76.

In the above statement of valuations, the Inventories of Raw Materials, Work in Process of Manufacture, and Finished Product acquired are stated at their appraised value at the time of acquisition, which naturally included some profit to the vendors. Considering, however, that it would be unfair if the current earnings of the Company were based upon that valuation of inventories, which is in excess of the value upon which current inventories of a manufacturing company should be carried, and are, in fact, now being carried by this Company, I placed the Inventories of Raw Materials, Work in Process, and Finished Product acquired as of the beginning of the Company's existence on the books at a total of \$18,155,353.52, which figure represents only a fair trading value of such inventories to a going concern, and which would be the value adopted in accordance with sound and conservative methods of accounting in the determination of profits of a going concern. This left a difference of \$7,392,808.90 between the price paid for the inventories and the value at which they were finally placed in the books, against which, according to your instructions, the entire remaining balance in the Surplus Created at Organization Account, amounting to \$5,295,993.76, was applied, thus leaving a balance in our profit account of \$2,096,815.14 in excess of the real estate, plant and other physical assets above enumerated.

This sum of \$2,096,815.14 represents the total amount now standing in our accounts in respect of: (1) The permanent equities in the inventories (representing the excess of the actual values over the valuations placed on the inventories in current trading practice). (2) The patents acquired by the Company.

This figure is less than one-third of the equities in the inventories at September 30, 1902, as determined by the appraisers, and at no subsequent date have the equities in the inventories been less than this figure. It is also undoubtedly much less than the actual cash market value of the patents acquired.

It is clear from the above recital that the capital stock of this Company was issued only for cash and physical properties fairly appraised, and that the entire present surplus of the Company has been the result of earnings.

Yours very truly,

(Signed) W. M. REAY,
Assistant Comptroller.

As stated in the above letter, the appraised value of the property for which "plant stock" was issued was \$67,076,229.65, showing a surplus over plant stock of \$7,076,229.65. These figures were as of September 30, 1902. During the last three months of the year a good deal of expense was incurred in the harvester trade in cleaning up the business "on the territory," particularly in settling ac-

counts with local agents, etc., while the sales during this period were practically negligible. Inasmuch as the International Harvester Co. adopted the calendar year for its fiscal year, its earnings for its first season (1903) cover a period of 15 months, and would be charged for two of such periods of large expense and small sales. This would tend to make a bad showing for that year, even if conditions were otherwise prosperous. Since the business results for that year were very bad, there was an even greater reason not to charge such expense to the earnings of the first business year (1903). At any rate the International Harvester Co. decided to deduct these expenses from surplus rather than to charge them against 1903 gross earnings.

It appears that this decision was made after 1903. The accounts could not have been made up, of course, before the beginning of 1903. Deducting these expenses of \$1,780,235.89 from the book surplus of \$7,076,229.65 left \$5,295,993.76 in the surplus. The final results of the year 1903 were so bad, however, that even this would not have enabled the company to show a profit, on the basis of the original inventory values, as will be made clear presently. On this account, apparently, the company decided to reduce the original appraisal values of the inventories. In so far as this reduction corresponded to the excess valuation of the inventories in the appraisal it was evidently a very proper step. The appraisal valuations of the inventories, as shown in the letter, aggregated \$25,548,162.42. This appraisal valuation was reduced, however, to \$18,155,353.52, making a cut of no less than \$7,392,808.90. According to the entries in the property account the reduction of the inventories in this way was made in December, 1902. According to the comptroller of the International Harvester Co., however, this decision was made some time during the first half of 1904 by a committee comprising Cyrus Bentley, Richard F. Howe, and himself.

The effect of this change in the inventory valuation, taken together with the other reduction of surplus just described, was to wipe out the entire book surplus, and to leave \$2,096,815.14 of the plant stock without anything back of it except intangible considerations. The International Harvester Co. wrote down the inventory and thus wiped out the surplus, and this enabled it to show a favorable profit and loss balance for the operations of the first year's business.¹

An opening statement of assets and liabilities for the business October 1, 1902, made on the basis of these changes, assuming that the fall expenses of \$1,780,235.89 were accruing charges which could be predetermined, would appear, therefore, in the table following.

¹ Fifteen months ending December 31, 1903.

Assets.		Liabilities.	
Plant account.....	\$42,097,689.33	Capital stock.....	\$120,000,000.00
Inventory.....	18,155,353.52	Purchase-money obligations.....	916,753.40
Bills receivable.....	1,206,775.00	Bills payable.....	2,694,172.63
Accounts receivable.....	1,995,299.93	Accounts payable.....	108,054.81
Unpaid stock subscriptions.....	59,851,803.34	Fall expenses.....	1,780,235.89
Cash.....	95,480.47		
Deficiency of tangible assets.....	2,096,815.14		
	125,499,216.73		125,499,216.73

The International Harvester Co., however, did not treat this deficiency between tangible assets and liabilities as such, but arbitrarily added the amount of this deficiency to the plant account of the company. The appraised valuation of the plant, already greatly in excess of its real value, as shown above (see Chapter III), was thus increased by \$2,096,815.14. The plant account was thereby raised to \$44,194,504.47 as of October 1, 1902. That these changes were for the purpose of making a showing of profit in 1903 is indicated by a consideration of the following summary of assets and liabilities on December 31, 1903, as reported by the Company:

Assets.		Liabilities.	
Property account.....	\$54,630,362.41	Capital stock.....	\$120,000,000.00
Deferred Depreciation charge.....	442,067.05	Purchase-money obligations.....	5,084,678.89
Inventory.....	42,891,391.20	Bills payable.....	300,346.13
Bills receivable.....	12,712,958.62	Accounts payable.....	2,796,037.27
Accounts receivable.....	8,968,808.62	Plant depreciation and extinguish- ment.....	488,227.09
Unpaid stock subscriptions.....	3,220,335.10	Contingent losses.....	475,198.79
Cash.....	8,319,745.78	Surplus.....	2,041,180.61
	131,185,668.78		131,185,668.78

Dividends amounting to \$3,600,000 had been paid, which are not included, therefore, in the surplus, so that the net earnings for the year, according to the statement of the company, were \$5,641,180.61. If, however, the company had not made the two changes noted above—namely, charging the fall expenses of \$1,780,235.89 to surplus, and reducing the inventory by \$7,392,808.90—which wiped out the remainder of the surplus (and, in reality, something more), it would not have shown any profit. Instead, as an offset against the earnings, as stated above (\$5,641,180.61), there would have been the sum of these two amounts (\$1,780,235.89 and \$7,392,808.90), or \$9,173,044.79, and a net loss in the balance of \$3,531,864.18. The International Harvester Co., therefore, wiped out its surplus and

\$2,096,815.14 more than its surplus, and thus made the showing of earnings which it claimed. It is evident, as already noted, that this form of statement was an afterthought, as the Company's comptroller expressly stated that no combined balance sheet was made at that time for 1903.

The showing of loss indicated above is not, however, a fair statement of the year's business, and should not be compared with the results of other years, for several reasons. In the first place, the appraisal inventories of \$25,548,162.42 were undoubtedly excessive. The Bureau has placed the value of these inventories at \$21,230,650.31. This value is based on the book figures of the predecessor companies as nearly as could be determined, with a liberal allowance for depreciation. (See Chapter III.) While it is quite possible that the book values of the predecessor companies were too high, it is not likely that the figure adopted by the Bureau is too high; in fact the depreciation allowed is so liberal that it should offset any tendency toward high valuations in the book figures. The available evidence, however, makes it impossible for the Bureau to accept any such low figure as that which the International Harvester Co. finally adopted, namely, \$18,155,353.52. The International Harvester Co., moreover, was given every opportunity to justify its own figures through its comptroller.

The position of the comptroller of the International Harvester Co. was practically that the company was warranted in reducing the inventory at the opening of the business in October, 1902, to \$18,155,000 for purposes of determining profits in 1903, while insisting that the appraised valuation of the inventory of \$25,500,000 was correct and proper for a statement of its assets and surplus at the same date. The Bureau regards this proposition as absolutely untenable in theory, and is convinced that, as a matter of fact, the proper value of the inventory was about the amount fixed above (Chapter III, p. 124), namely, \$21,230,650.31. As both the theory and the facts are of considerable importance here, full excerpts of the statements of the comptroller in this connection are given below.

Q. Your appraisal inventory was \$25,000,000 odd?—A. That is correct.

Q. You apparently made a change in your inventory to \$18,000,000 as of December, 1902?—A. As of October 1, 1902; yes.

Q. You made it in December, 1902, as of October 1, 1902; is that correct? Was that change actually resolved on in December, 1902, or subsequently?—A. It was resolved on in the spring of 1904 for use in 1903 accounts. I do not recollect the exact date at which that figure was determined upon, but it was around that time.

* * * * *

Q. It was after you became associated with the company that the figure of \$18,000,000 was adopted?—A. Yes, sir. The acting comptroller probably had no knowledge of what that figure was going to be.

Q. And that figure was determined upon in order to let you determine what the profits were for the year, or for the fifteen months ending December, 1903?—A. Yes, sir.

Q. Then you adopted an opening entry for inventory of \$18,000,000 odd?—A. Yes, sir.

Q. The reason I ask that is this: As a proposition of book-keeping you agree that you have to have your changes in inventory established before you really can determine what your profit or loss for the year has been?—A. The determination of the inventory at the beginning and end of each season is a most important factor in determining profits.

* * * * *

Q. What is your principle for valuing inventories to-day? It is the usual accounting principle, is it not, taking the cost unless the market price is lower?—A. Yes, sir; except for finished machines carried over on the territory we follow the well-established principle of valuing inventories at cost or market value, whichever is the lower.

Q. Has that rule been consistently followed in the inventories that have been used in determining the annual profits of the company from the beginning?—A. Except in respect to the valuation of finished machines carried over from season to season.

Q. What difference is adopted then?—A. It has been the custom in the harvester business where large stocks of machines are carried over on the territory, many of which are improperly housed and suffer depreciation from the weather and other causes during the winter, to make some depreciation from the original cost value of those finished machines to provide for the shrinkage in selling value which will be allowed in the succeeding year.

* * * * *

Q. Was the inventory that you established and used as of October 1, 1902, namely, \$18,000,000, in round numbers, on the same basis as it should be according to the general rule that you have adopted for determining the value of inventory?—A. I think the value of that inventory for trading purposes was determined by Mr. R. F. Howe, Cyrus Bentley, and myself.

Q. And on a different principle?—A. Yes; on a different principle.

Q. What principle?—A. In the award of August, 1903, the vendors submitted to a shrinkage of approximately 30 per cent in the value of their assets and good will sold to the International Harvester Co.

Q. Based on stock issued?—A. Yes; based on stock issued. So in taking up the inventories in the trading accounts for the year 1903 it was natural that consideration would be given to this shrinkage, and by the deduction of this 30 per cent shrinkage the inventory value of \$18,000,000 was arrived at.

Q. Why should you not shrink also the property that was acquired—the plant?—A. The shrinkage might have been applied to anything, so far as that goes.

Q. It was not, to plant?—A. No; it was not necessary to apply it to the plant, for the reason that if the vendors had received full stock consideration for their trading inventories then they might have been taken up—not necessarily—in the trading accounts at the appraised valuation. But you could not shrink their inventories in making the sale, and then say, “Well, you must also suffer a reduction of profits in the new company.” You can see the point there. I do not know whether that is what happened or not, mind you.

Q. Was not one motive in shrinking the inventory from the appraised value of \$25,000,000 to the adopted value of \$18,000,000 to make a showing of profit in 1903?—A. Not necessarily; no.

Q. Would you have made a showing of profit in 1903 if you had not shrunk your inventory?—A. The answer to that is that it seems to me that no concern would have started its trading accounts with the value of the inventory acquired on a particular date, like the International Harvester Co. acquired its inventories on October 1, 1902, so the inventories were placed in the trading accounts at the shrinkage value. At the same time, subsequent history proved that that value was a fair and reasonable value at which to take those inventories up in the trading accounts, irrespective of the valuation which was placed upon them for sale to the International Harvester Co.

Q. Then the appraisal was wrong by that amount?—A. Not at all; no.

Q. The appraisal can not be one thing for assets and another thing for the determination of cost of manufacture or profit?—A. Yes, sir; it may very easily. The price which you pay for a certain article is the actual price that you pay on the acquisition of it; but [in] the determination of the profits of a going concern that is not necessarily the figure at which you should take it up in your trading accounts.

Q. But you did not pay money for it; you issued stock?—A. Stock or money; I do not see that it makes any difference. It does not to my mind. If there ever was anything real, it is the capital stock of the International Harvester Co. I wish that all concerns in the world were on the same basis of valuation, and we would not be in the difficulties that we are in to-day in the business world.

Q. If you had not shrunk your inventories in this way, do I understand that in starting your books you would necessarily have done one of two things, either shown a bigger surplus nominally on your books or handled it in some other way?—A. The effect of taking up the inventories in the trading accounts at \$25,000,000 would have been to reduce earnings for this nine-year period by \$7,000,000.

Q. And would have made a loss for 1903?—A. No, sir.

Q. What were your earnings for 1903; \$5,641,000, were they not?—A. Something like that; yes.

Q. According to your statement that change in inventories could only affect that first year; I mean your statement must be

understood that way. You said that if you had not made that change in the inventories you would have decreased your earnings by \$7,000,000. That decrease would have come out in the year 1903?—A. No; because that would depend upon how the inventories were valued at the close of 1903.

Q. But you say they were valued correctly at the close of 1903?—A. And at the beginning, too.

Q. At which figure?—A. At \$18,000,000 at the beginning, and whatever was taken up on the books at the end.

Q. Then they were not worth but \$18,000,000?—A. No; they were worth \$25,000,000, because they were appraised at \$25,000,000.

* * * * *

Q. But the reduction in inventory in 1902 from \$25,500,000 to \$18,000,000 odd, was it not due to the necessity of doing that in order to show a profit in the year 1903?—A. No. As I remember, one of the first things that I was confronted with in determining the profits for 1903 was the value at which the inventory at the beginning of that season should be taken into the trading accounts. That question had not been settled when I first went with the International Harvester Co.; but my recollection is that the officials of the company insisted from the outset that the correct value to take that inventory into the trading accounts was \$25,500,000, less the percentage of shrinkage that they submitted to in the award of August, 1903. That is my earliest recollection.

Q. The percentage of shrinkage on the whole appraisal of assets transferred for plant stock?—A. That was the shrinkage including the good will.

Q. What has that got to do with the real value of the inventory?—A. I do not know what the motive was.

Q. I mean, what relation was there between that fact and any real valuation or proper valuation of the inventory?—A. Because the vendors doubtless felt that inasmuch as they had received only \$18,000,000 for their inventories, therefore they should be taken up in the trading accounts at the same figure—the trading accounts of the International Harvester Co.

* * * * *

Q. I understand, Mr. Reay, that you take the position that it is entirely proper to enter inventories at one valuation for the purpose of showing the investment, but to take them at a different valuation in figuring the year's profit. I would like to have you make as full a statement as you will, at least so far as the actual entries on the book are concerned.—A. That is the only claim I made; that the fact that you pay a certain sum for current inventories, or raw materials, work in progress, and finished products at the time of their original acquisition is not necessarily the figure at which those inventories should be carried into the trading accounts of the company as a going concern. I might say that in that point of principle we have already

the certificate of Haskins & Sells, and Price, Waterhouse & Co.—perhaps the two most reliable firms of public accountants in the world—whose point of view could not ever be swayed by anything except their own well-formed conceptions of the principle involved. Messrs. Price, Waterhouse & Co. in their certificate, stated, “as we understand that the sum of \$18,155,000 represents a fair and proper valuation of the inventories on a basis similar to that used in current practice by your company and its predecessors, we approve of the principle and methods adopted in dealing therewith.”¹

This question of appraisal was also referred to Mr. W. J. Filbert,² who, in his letter of May 14, 1907, addressed to Mr. Cyrus H. McCormick, president, states:

“The foregoing principle in my opinion is sound and correct from every point of view—accounting, operating, and financial. The fact that the inventory was appraised on a certain basis for the Lane settlement and accordingly showed a total value in excess of what it was taken up at, has no bearing necessarily on the value of the inventory for bookkeeping purposes. The Lane settlement was something the Harvester Company per se was not concerned in. Moreover, had it been, that would not alter the principle to be observed in determining the valuation to be taken onto the books. The book valuation of a working inventory to a going concern should be what it is worth to a company for trading and operating purposes. The same principle should be followed in respect of establishing on the books of a new company an inventory acquired, no matter what it actually cost. If it acquires an inventory *en bloc* under conditions other than through the regular routine of operations, an adjustment should be made accordingly. Unless this be done a company would not, until the original inventory was finally disposed of, show results from operating and trading which would be indicative of either the real cost of operation or the real profitableness of the business.

“In submitting the above opinion it will be understood I am endorsing only the principle involved. The question whether the inventory as actually adjusted really put it *only* on the basis named, or above or below that, is a separate question and one on which I understand my opinion is not solicited.”

* * * * *

¹ Following is the full statement of Price, Waterhouse & Co.:

NEW YORK, May 14, 1907.

C. H. MCCORMICK, Esq.,
President, International Harvester Company, Chicago, Ill.

DEAR SIR: We have considered the method adopted by your company in valuing, for the purpose of its Profit and Loss Account, the Inventories of Raw Materials, Work in Progress and Finished Products acquired as of September 30, 1902.

We have not made a detailed examination of the figures, but, assuming as we understand to be the case that the sum of \$18,155,353.52 represents a fair and proper valuation of the Inventories on a basis similar to that used in current practice by your company and its predecessors, we approve of the principle and methods adopted in dealing therewith, as set forth in the report of the Assistant Comptroller dated May 14, 1907, a copy of which is annexed hereto.

Yours, very truly,

(Signed)

PRICE, WATERHOUSE & COMPANY.

² Mr. Filbert is comptroller of the United States Steel Corporation.

The report referred to in this statement is the letter given on pp 197-198.

The Bureau is convinced that the differences of opinion, indicated above, arise chiefly from different conceptions of what a property account should be. As a result of long established and loose business practices, the property account has come to include much that is not tangible property at all—as, for example, good will, or even water. The Bureau takes the position that it ought not to be made to include any intangible values or to conceal any deficiencies in tangible assets as compared with capital stock and other liabilities. So far as the particular valuation of the inventory in this case is concerned, the Bureau is confident that while it was quite proper to make a considerable reduction from the appraised valuation, the valuation which was adopted was unduly low and was made in order to show a larger profit in 1903.

With respect to the company's claim that the higher inventory valuation should be used in reckoning assets while the lower valuation should be used in the trading accounts, the Bureau's position is that a valuation which is proper for the one purpose is proper for the other.

Having set forth the peculiar character of the statements of assets and liabilities in 1902 and 1903 which enabled the International Harvester Co. to show a favorable balance of profit at the end of the latter year, it is important to consider what the result would be if the values of the property acquired as determined by the Bureau (see Chapter III) were used instead. The opening statement of assets and liabilities as of October 1, 1902, and the statement as of December 31, 1903, would be as follows:

TABLE 39.—STATEMENT OF ASSETS AND LIABILITIES OF INTERNATIONAL HARVESTER CO. ON OCT. 1, 1902, AND DEC. 31, 1903, BASED ON BUREAU'S VALUATIONS.

Assets.	Oct. 1, 1902.	Dec. 31, 1903.	Liabilities.	Oct. 1, 1902.	Dec. 31, 1903.
Property account..	\$28,456,327.87	\$38,892,185.81	Capital stock.....	\$120,000,000.00	\$120,000,000.00
Deferred charges.....		442,067.05	Purchase-money obligations.....	916,753.40	5,084,678.89
Inventory.....	21,230,650.31	42,891,391.20	Bills payable.....	2,694,172.63	300,346.13
Bills receivable.....	1,206,775.00	12,712,958.62	Accounts payable.....	108,054.81	2,796,037.27
Accounts receivable.....	1,995,299.93	8,968,808.62	Plant depreciation and extinguishment.....		477,052.10
Unpaid stock subscriptions.....	59,851,803.34	3,220,335.10	Contingent losses.....		475,198.79
Cash.....	95,480.47	8,319,745.78			
Deficiency of tangible assets.....	10,882,643.92	13,685,821.00			
Total.....	123,718,980.84	129,133,313.18	Total.....	123,718,980.84	129,133,313.18

The item of property in this statement, namely, \$28,456,327.87, is determined as follows: From the total value as fixed by the Bureau for the property conveyed for plant stock, namely, \$49,117,356.08,

deduction is made of the amount of inventory (\$21,230,650.31), the net working capital (\$456,111.71) of the Milwaukee company, and Plano receivables (\$39,216.25), and to the remainder is added the Milwaukee excess (\$148,196.66) and the Deering purchase-money obligations (\$916,753.40). The inventory is put in at the figure adopted by the Bureau (p. 124). The other items are the same as for the statement of the International Harvester Co. given above (p. 196), except that now the surplus of \$7,076,229.65 disappears and in its place there is an item on the asset side of the balance sheet of \$10,882,643.92, which may be regarded as deficiency of tangible assets or good-will value.

In the statement of assets and liabilities for December 31, 1903, the property account stands at \$38,892,185.81. The difference between this amount and the property account for October 1, 1902, namely, \$10,435,857.94, being additions to property made during this period. The property account does not include the \$2,096,815.14, which was put in or left in the property account by the International Harvester Co. on account of equity in inventory, patents, etc., as explained above (p. 198). The other items for this statement of assets and liabilities are identical with those of the International Harvester Co., except that the surplus there shown of \$2,041,180.61 becomes in this statement a deficiency in tangible assets amounting to \$13,685,821.

The International Harvester Co.'s statement of assets and liabilities for December 31, 1903, showed a surplus of \$2,041,180.61 after the payment of \$3,600,000 in dividends, indicating net earnings for the year of \$5,641,180.61. A comparison of the deficiency of tangible assets in the Bureau's statements for October 1, 1902 (\$10,882,643.92) and December 31, 1903 (\$13,685,821) shows an increase in such deficiency of \$2,803,177.08. This figure, taken in connection with the dividends paid out meantime, namely, \$3,600,000, indicates net earnings for this period of 15 months of \$796,822.92, instead of \$5,641,180.61. Before considering in detail the reasons for the extraordinarily low earnings of the International Harvester Co. in 1903, it should be considered that this period includes 15 months and involved two fall periods of large expenditure when practically no earnings were made. In order, therefore, to put this year on a comparable basis with other years, there should be deducted from the expenditures and added to the earnings of 1903 the \$1,780,235.89 of expenditures which were incurred in the last 3 months of 1902. Making this adjustment, the net earnings for the 12 calendar months of 1903 would be \$2,577,058.81. The foregoing comparison of earnings is made on the basis of the depreciation and reserves made by the International Harvester Co. The Bureau has made some modi-

fications in these figures, but their total effect for the year 1903 would amount to an addition to earnings of only \$11,174.99.

The small profit of the International Harvester Co. in 1903, especially in view of an inventory which in total amount showed a very large increase over 1902, is quite extraordinary, so that it is desirable that the facts should be examined in some detail, particularly the changes in inventory and the circumstances as to cost and selling expense, all of which necessarily had a large influence with respect to the amount of profit for that year.

The value of the inventory in 1902, according to the appraisal, was \$25,500,000, and according to the adjustment made for the trading accounts of the company, was \$18,000,000. The inventory at the end of 1903, as finally adjusted, was nearly \$43,000,000. These extraordinary differences demand explanation. It should be remembered in the first place, therefore, that according to the Bureau's opinion, a fair valuation of the inventory in 1902 was approximately \$21,000,000, which might possibly be a little low, but which is almost certainly not too high.

This Bureau valuation contains a liberal allowance for depreciation of finished machines carried over, namely, \$1,500,000, or about 15 per cent on such inventory. The inventory of the International Harvester Co. for December 31, 1903, was, as stated above, \$43,000,000. Eliminating from consideration items of intercompany profit, the original amount of this inventory as it stood on the operating accounts of the company, was \$47,000,000. A depreciation adjustment was made, however, of \$2,000,000 on account of the sudden decline in the market prices of many of the raw materials of manufacture below the figures at which they were inventoried in the books of the company. This depreciation was chargeable against raw materials and work in progress. A further depreciation of \$2,100,000 was made in the profit and loss accounts as a general depreciation for finished machines. This depreciation was made on account of the very large quantity of finished machines then on hand, and is stated by the comptroller of the company to have been due to actual physical depreciation. This depreciation amounted to about 13 per cent on the finished machines in the inventories. The great increase in the amount of the inventory between October 1, 1902, and December 31, 1903, is explained by the company as follows:

The inventories of October 1, 1902 and December 31, 1903, are not comparative owing to the differences in the inventory dates. The inventory at December 31, 1903, not only includes the works inventory at October 1, 1903, and the country inventory at the close of 1903 season, but also the material, purchases and manufacture at Works between October 1, 1903, and December 31,

1903, on account of production for 1904 season. The inventory at December 31, 1903 also includes the Osborne inventory, the steel mill inventory, and Hamilton Works inventory, whereas the inventory of October 1, 1902, did not include any of these items. This accounts for \$15,837,000 of the increase in the statement of Comparative Summary of Inventories, October 1, 1902, and December 31, 1903. The remainder of the 1903 inventory increase at Works and on the territory was occasioned by over-purchasing and overproduction in that season, and a large falling off in the sales of that year both from the 1902 volume and the 1903 estimate.

The \$15,837,000 increase in the two inventories referred to above accounts for nearly all the difference taking the opening entry for inventory at \$25,500,000, as given in the appraisal; but, if instead of this the reduced valuation of inventory for "trading purposes," namely, \$18,155,000, is taken, there is a very large gap unaccounted for. In the opinion of the Bureau this tends to confirm the view that the reduction of the inventory valuation to \$18,155,000 in 1902 was unwarranted.

While the Bureau is not in a position to determine satisfactorily the exactness or adequacy of this explanation, there is no doubt that the inventories in 1903 were much higher than in 1902. In the first place, an inventory taken at the end of the calendar year would naturally show a considerably larger amount than one taken on October 1, inasmuch as a large quantity of machinery is in the process of manufacture, while practically no shipments are being made. Secondly, the output in the first 15 months of the International Harvester Co.'s business was undoubtedly very large and greatly in excess of the market demand. Finally, the International Harvester Co. had acquired, through the purchase of the Osborne, the Minnie, and the Aultman-Miller companies, large additions to its inventories. There seems to be no good ground for believing, therefore, that there was any overvaluation in the inventory of \$43,000,000 on December 31, 1903. On the other hand, the heavy depreciation made at that time, while it may have been entirely warranted by market conditions and the actual physical depreciation of the finished machines, tended, of course, in so far as it may have been in any degree excessive, to reduce the profit in 1903, although it did, of course, in a corresponding degree, have the effect of increasing the profit in 1904.

Some light is thrown on the low profits in the year 1903 by the relative costs of manufacture in that year. For this purpose a comparison may be made between the first two years of the company's operations, namely, 1903 and 1904, as reported by the company itself. The sales of the International Harvester Co. (exclusive of outside

goods), the works costs of such sales and the per cent of the latter to the former, were as follows:

Year.	Sales.	Works cost.	Per cent of cost to sales.
1903.....	\$52,027,079.62	\$33,237,858.60	63.89
1904.....	49,547,503.40	30,257,713.83	61.07

From the above data it appears that the per cent of works cost in 1903 was nearly three points higher than in 1904. If the same per cent had prevailed in 1903 as in 1904 the profits of the International Harvester Co. on this account would have been apparently about \$1,500,000 higher. The high cost of production in 1903 appears, therefore, to be another partial explanation of the low profits in that year. Of course if the Bureau's inventory valuation of \$21,230,000 had been used, instead of the \$18,155,000 used by the company, the ratio of cost to sales in 1903 would have been much higher.

A similar situation is found with respect to the changes in selling expense. The following data show the relation of selling expense to sales (excluding steel products and fiber, but including outside goods):

Year.	Sales.	Selling expense.	Per cent of selling expense to sales.
1903.....	\$52,035,929.10	\$13,335,845.77	25.61
1904.....	49,717,019.73	11,901,103.45	23.94

The per cent of selling expense to sales was 25.61 in 1903, and 23.94 in 1904, or more than a point and a half higher in the former year. If the selling expense had been in the same ratio to sales in 1903 as in 1904, the selling expense would have been nearly \$900,000 lower in 1903, and the profit of that year would have been increased to the same extent. In 1905 the ratio of selling expense was reduced to 20.41, and in 1907 to 18.50. It is quite plain, therefore, that the selling expense in 1903 was extraordinarily high, and had a considerable effect in diminishing profits. It may also be noted that the selling expense of the same companies for the three years prior to 1903 was in each year considerably lower than in 1903, and ranged from 23.14 to 23.34 per cent. One reason, apparently, for this high selling expense was that, as Cyrus H. McCormick expressed it in an interview with former officials of the Bureau, "the selling agents went to sleep." A similar lack of energy probably explains in part the advance in manufacturing costs noted above.

Section 3. Earnings as reported by the International Harvester Co.

Before presenting the results of the Bureau's analysis of the financial operations of the International Harvester Co., it is important that the principal results as shown by the accounts of the company should be stated. As the details of many parts of its financial statements will be considered particularly in connection with the revisions made by the Bureau, it is necessary in this place to show only the broadest results, such as the net earnings from operations and summary statements of assets and liabilities.

EARNINGS.—In the preceding section certain criticisms have already been made of the statements of earnings of the International Harvester Co. for the year 1903. It is not necessary to repeat them here. The purpose of the present discussion is simply to show in a compact general statement the results as shown by the company's own books.

The following table shows the reported net earnings of the International Harvester Co. for the years 1903 to 1911, inclusive, the dividends paid, the additions to surplus, and the aggregate amount of capital stock and surplus at the end of each fiscal year; also, the rate of net earnings to capital stock and surplus, and the rate of dividends on the capital stock for each year:

TABLE 40.—NET EARNINGS, DIVIDENDS, ADDITIONS TO SURPLUS, AND CAPITAL STOCK AND SURPLUS OF THE INTERNATIONAL HARVESTER CO., AS REPORTED BY THE COMPANY, AND RATE OF NET EARNINGS ON CAPITAL STOCK AND SURPLUS, AND RATE OF DIVIDENDS ON CAPITAL STOCK, 1903-1911.

Year.	Net earnings.	Dividends.	Additions to surplus.	Capital stock and surplus.	Rate of net earnings on capital stock and surplus at beginning of year.	Rate of dividend on capital stock.
1902.....				\$120,000,000.00		
1903.....	\$5,641,180.61	\$3,600,000.00	\$2,041,180.61	122,041,180.61	¹ 4.70	3.00
1904.....	5,658,534.68	4,800,000.00	858,534.68	122,899,715.29	4.64	4.00
1905.....	7,479,187.36	4,800,000.00	2,679,187.36	125,578,902.65	6.08	4.00
1906.....	7,346,947.32	4,800,000.00	2,546,947.32	128,125,849.97	5.85	4.00
1907.....	8,080,457.51	4,200,000.00	3,880,457.51	132,006,307.48	6.31	3.50
1908.....	8,885,682.13	4,200,000.00	4,685,682.13	136,691,989.61	6.73	3.50
1909.....	14,892,740.21	4,200,000.00	10,692,740.21	147,384,729.82	10.89	3.50
1910.....	16,084,819.19	² 27,400,000.00	³ 11,315,180.81	156,069,549.01	10.91	⁶ 21.95
1911.....	15,521,397.89	8,200,000.00	7,321,397.89	.....	9.95	5.86
Total.....	89,590,946.90	66,200,000.00	23,390,946.90	.....	.....	.....
Average.....	9,954,549.66	7,355,555.56	.....	132,310,913.83	7.52	5.91

¹ Computed on capital stock, \$120,000,000, Oct. 1, 1902.

² Includes stock dividend of \$20,000,000 from surplus.

³ Decrease due to stock dividend from surplus.

⁴ Includes \$20,000,000 capital stock dividend from surplus.

⁶ Rate based on cash dividend and also stock dividend of \$20,000,000.

According to the financial statements of the company, therefore, the net earnings ranged from \$5,641,180.61 in 1903, to \$16,084,819.19 in 1910. The earnings for 1911 were slightly below the maximum earnings in 1910. With the exception of 1906 and 1911, the earnings as stated by the company showed an increase in each year. The most marked change was in 1909, when the earnings increased from \$8,885,682.13 to \$14,892,740.21. The extraordinary increase in this year is partly explained by a great increase in sales of new lines and an increase in the foreign trade, and also partly by an increase in prices. The comparatively low earnings in 1903 and 1904 are chiefly explained, undoubtedly, by the very imperfect organization of the combination during that period. This lack of effective internal organization had a marked influence on earnings until the end of the year 1906.

The rate of these net earnings to the capital stock and surplus of the company, according to its own financial statements, ranged from 4.64 per cent in 1904 to 10.91 per cent in 1910. The rate in 1903 was a trifle higher than in 1904, according to the company's own financial statements, while in 1911 it was about 1 per cent lower than in 1910. Although the earnings showed an almost uninterrupted increase from year to year, this tendency was not quite so fully realized in the changes in the rate of net earnings, on account of the fact that a considerable part of the net earnings was left in the surplus of the company and not divided among the stockholders.

The average rate of net earnings to capital stock and surplus for the nine-year period shown in the foregoing table, was 7.52 per cent, according to the financial statements of the company. This comparatively moderate rate of return was due especially to the low average rate in the first four years of the company's operations. For the last three years, namely, 1909 to 1911, inclusive, the average rate of return on capital stock and surplus was 10.56 per cent.

While the company's accounts did not show extraordinarily high earnings for the period under consideration, nevertheless its capital stock and surplus, or net investment, showed a considerable increase. According to the company's own statements, it wrote off its original surplus of \$7,076,229.65. The capital stock and surplus at the end of the year 1911 was \$163,390,946.90. This increase of \$43,390,946.90 was made entirely through the net earnings of this period. The balance of the net earnings, namely, \$46,200,000, or a little over one-half of the net earnings of the company, was paid out in cash dividends. The annual amounts of dividend (exclusive of stock dividend) ranged from \$3,600,000 in 1903 to \$8,200,000 in 1911, or from a rate of 3 per cent in 1903 to 5.86 per cent in 1911. Including the capital stock dividend of \$20,000,000 in 1910, the average dividend

for the nine years was 5.91 per cent. Excluding the stock dividend, the average was 4.13 per cent.

ASSETS AND LIABILITIES, 1903 TO 1911.—A general view of the results of the financial operations of the International Harvester Co., according to its own statements, requires also a comparison, in a summary form at least, of its statements of assets and liabilities. Such a statement is desirable also in order to make more intelligible the discussion of the Bureau's method of revising the financial accounts of this company.

The form of the International Harvester Co.'s balance sheet, as given in the annual report for 1911, is shown below.

TABLE 41.—INTERNATIONAL HARVESTER CO. COMBINED BALANCE SHEET, DECEMBER 31, 1911.

ASSETS.

Property account:

Real estate and plant property, ore mines, coal and timber lands at December 31, 1910-----	\$70, 936, 328. 05
Net capital additions during 1911-----	4, 590, 769. 16
	<hr/> 75, 527, 097. 21

Expenditures for stripping and develop- ment at ore mines-----	1, 057, 903. 49
---	-----------------

\$76, 585, 000. 70
206, 888. 08

Deferred charges to operations-----

Fire insurance fund assets-----

1, 514, 312. 50

Current assets:

Inventories—

Finished products, raw materials, etc., at close of 1911 season-----	49, 168, 601. 18
Subsequent material purchases and manufacture for 1912 season-----	20, 424, 179. 68
	<hr/> 69, 592, 780. 86

Receivables—

Farmers' and agents' notes-----	\$52, 910, 943. 11
Accounts receivable --	19, 977, 644. 65
	<hr/> 72, 888, 587. 76

Deduct—

Accumulated reserves for contingent losses-----	3, 137, 166. 22
---	-----------------

69, 751, 421. 54

Cash-----

6, 074, 151. 86

145, 418, 354. 26

223, 724, 555. 54

		LIABILITIES.	
Capital stock:			
Preferred	-----	\$60,000,000.00	
Common	-----	80,000,000.00	
			\$140,000,000.00
Purchase money obligations	-----		879,500.00
Current liabilities:			
Bills payable	-----	30,918,341.68	
Accounts payable—			
Current invoices, pay-			
rolls, accrued interest			
and taxes, etc	-----	\$8,334,729.84	
Preferred stock divi-			
dend (payable March			
1, 1912)	-----	1,050,000.00	
Common stock dividend			
(payable January 15,			
1912)	-----	1,000,000.00	
		10,384,729.84	
			41,303,071.52
Reserves:			
Plant depreciation and extinguishment	---	9,708,607.37	
Special maintenance	-----	1,340,810.66	
Collection expenses on receivables	-----	1,000,000.00	
Fire insurance fund	-----	2,061,399.82	
Pension fund	-----	1,027,719.27	
Industrial accident fund	-----	512,500.00	
Contingent	-----	2,500,000.00	
			18,151,037.12
Surplus	-----		23,390,946.90
			223,724,555.54

The table following shows in summary form the statement of assets and liabilities at the date of opening business and for the close of each fiscal year subsequent thereto from December 31, 1903, to December 31, 1911, inclusive.

PROFITS.

TABLE 42.—CONDENSED BALANCE SHEETS OF INTERNATIONAL HARVESTER CO., AS SHOWN BY ITS ACCOUNTS, 1902-1911.

	Oct. 1, 1902.	Dec. 31, 1903.	Dec. 31, 1904.	Dec. 31, 1905.	Dec. 31, 1906.	Dec. 31, 1907.	Dec. 31, 1908.	Dec. 31, 1909.	Dec. 31, 1910.	Dec. 31, 1911.	Increase or decrease Dec. 31, 1911, com- pared with Oct. 1, 1902.
ASSETS.											
Property account.....	\$42,097,689.33	\$42,097,689.33	\$54,630,362.41	\$56,268,110.11	\$58,789,501.50	\$60,392,163.14	\$62,844,136.48	\$63,680,776.06	\$66,532,608.86	\$71,887,402.38	
Additions during year.....		\$12,532,673.08	1,637,747.70	2,521,391.39	1,602,661.64	1,901,680.98	647,460.37	2,716,584.31	5,278,439.25	4,590,769.16	\$33,429,407.88
Stripping expendi- tures.....						550,292.36	189,179.21	135,248.49	76,354.27	106,829.16	1,057,903.49
Property ac- count Dec. 31	42,097,689.33	54,630,362.41	56,268,110.11	58,789,501.50	60,392,163.14	62,844,136.48	63,680,776.06	66,532,608.86	71,887,402.38	76,585,000.70	34,487,311.37
Deferred charges.....		442,067.05	478,473.41	637,795.42	667,776.48	285,287.66	189,683.08	153,418.79	190,215.33	206,888.08	206,888.08
Insurance fund											
assets.....	25,548,162.42	42,891,391.20	43,032,131.97	47,257,637.93	49,317,885.88	50,287,625.77	47,687,056.26	53,399,926.84	61,646,434.80	69,592,780.86	44,044,618.44
Inventories.....	1,206,775.00	12,712,938.62	18,446,262.84	18,580,977.26	21,735,360.10	26,583,001.10	25,471,132.81	29,752,945.15	39,859,973.30	52,910,943.11	51,704,168.11
Bills receivable.....	1,995,299.93	8,968,808.62	9,952,124.86	12,470,743.26	12,834,337.56	14,511,387.27	13,064,927.11	19,103,716.45	18,720,597.99	19,977,644.65	17,982,344.72
Accounts receivable	95,480.47	8,319,745.78	4,937,586.27	2,320,034.68	4,050,865.61	3,573,893.94	9,339,054.90	5,426,689.82	4,561,171.25	6,074,151.86	5,978,671.39
Cash.....											
Unpaid stock sub- scriptions.....	59,851,803.34	3,220,335.10									\$59,851,803.34
Total.....	130,795,210.49	131,185,608.78	133,114,689.46	140,106,740.05	148,998,388.77	158,085,332.22	159,833,412.42	175,440,168.41	198,380,107.55	226,861,721.76	96,066,511.27

¹ Equity in inventories, \$2,096,815.14, not included.² Additions for 1903 season, include \$2,096,815.14, equity in inventories.

* Decrease.

TABLE 42.—CONDENSED BALANCE SHEETS OF INTERNATIONAL HARVESTER CO., AS SHOWN BY ITS ACCOUNTS, 1902-1911.—Continued.

LIABILITIES.	Oct. 1, 1902.	Dec. 31, 1903.	Dec. 31, 1904.	Dec. 31, 1905.	Dec. 31, 1906.	Dec. 31, 1907.	Dec. 31, 1908.	Dec. 31, 1909.	Dec. 31, 1910.	Dec. 31, 1911.	Increase or decrease Dec. 31, 1911, compared with Oct. 1, 1902.
Capital stock.....	\$120,000,000.00	\$120,000,000.00	\$120,000,000.00	\$120,000,000.00	\$120,000,000.00	\$120,000,000.00	\$120,000,000.00	\$120,000,000.00	\$140,000,000.00	\$140,000,000.00	\$20,000,000.00
Purchase-money obligations.....	916,753.40	5,084,673.89	5,087,648.88	5,151,337.68	4,244,740.55	3,450,194.63	.....	2,250,000.00	1,125,000.00	879,500.00	197,253.40
Bills payable.....	2,694,172.63	300,346.13	.....	778,560.00	7,778,560.00	10,465,775.36	8,286,664.95	5,824,750.00	13,778,045.46	30,918,341.68	28,224,169.05
Accounts payable.....	108,054.81	2,796,037.27	3,137,357.93	5,554,036.46	4,224,002.03	5,593,442.94	5,529,387.58	6,140,531.02	9,763,111.68	10,384,729.84	10,276,675.03
Plant depreciation and extinguishment fund reserve.....	.....	488,227.09	1,215,278.77	2,003,918.59	2,775,917.11	3,841,502.11	5,009,844.00	6,510,674.76	8,082,073.15	9,708,607.37	9,708,607.37
Special maintenance reserve.....	.....	.....	.....	.....	.....	.....	469,653.14	1,038,741.06	1,282,120.54	1,340,810.66	1,340,810.66
Collection expenses on receivables reserve.....	.....	.....	.....	.....	500,000.00	600,000.00	700,000.00	800,000.00	900,000.00	1,000,000.00	1,000,000.00
Pension fund reserve.....	.....	.....	.....	.....	.....	.....	250,000.00	502,654.22	761,291.44	1,027,719.27	1,027,719.27
Fire insurance fund reserve.....	.....	.....	.....	101,540.78	254,994.48	325,231.64	671,093.23	1,093,461.73	1,544,892.25	2,061,399.82	2,061,399.82
Industrial accident insurance reserve.....	.....	.....	.....	.....	.....	.....	.....	.....	250,000.00	512,500.00	512,500.00
Contingent losses on receivables.....	.....	475,198.79	744,688.59	938,443.89	1,654,324.63	1,802,878.00	2,224,829.91	2,644,625.80	3,074,024.02	3,137,166.22	3,137,166.22
Contingent reserve, deferred profits.....	.....	.....	.....	.....	.....	.....	.....	1,250,000.00	1,750,000.00	2,500,000.00	2,500,000.00
Surplus.....	7,076,229.65	2,041,180.61	2,899,715.29	5,578,902.65	8,125,849.97	12,006,307.48	16,691,989.61	27,384,729.82	16,069,549.01	23,890,946.90	16,314,717.25
Total.....	130,795,210.49	131,185,668.78	133,114,689.46	140,740.05	148,998,388.77	158,085,332.22	159,838,462.42	175,440,168.41	198,380,107.55	226,861,721.76	96,066,511.27

1 Decrease.

Regarding the assets and liabilities of the International Harvester Co. as of date of the beginning of business, October 1, 1902, and for the end of the first fiscal year, December 31, 1903 (15 months), some statements and detailed discussion have been presented in the preceding section, and it is unnecessary to repeat the consideration of that part of the subject.

As stated above (see p. 190), no authentic balance sheet was made up by the company prior to December 31, 1906, but the figures which are presented here for dates prior to that period were made up subsequently by the International Harvester Co. at the request of the Bureau.

The statement of October 1, 1902, shows the entries at which the company opened its books on the basis of the original appraisal. On the basis of changes subsequently made and already explained, these opening entries might have been made in the form presented on page 200, wherein the appraised value of the inventory is written down from \$25,548,162.42 to \$18,155,353.52, together with other changes explained in detail in that connection, whereby the surplus of \$7,076,229.65 was written off. The surplus shown in this statement for December 31, 1903, namely, \$2,041,180.61, was the balance of earnings left after the distribution of dividends amounting to \$3,600,000, according to the company's statement.

The gross assets of the company show an increase from \$130,795,210.49 on October 1, 1902, to \$226,861,721.76 on December 31, 1911. The property account increased from \$42,097,689.33 on October 1, 1902, to \$76,585,000.70 on December 31, 1911. This increase of \$34,487,311.37 was partly brought about by the acquisition of independent plants, but mostly by additions made to plants existing at the beginning or by the erection of new plants, either in the United States or in foreign countries, the principal additions of both these sorts having been already described. (See pp. 137-150.) Similar large increases occurred in most other classes of assets, such as inventories and bills and accounts receivable. The inventories increased from an appraised value of \$25,548,162.42 on October 1, 1902, to \$69,592,780.86 on December 31, 1911. For a comparison of bills and accounts receivable it would not be proper to take the figures prior to December 31, 1904, inasmuch as the company was not well under way until that period. From December 31, 1904, to December 31, 1911, the bills and accounts receivable increased from \$28,398,387.70 to \$72,888,587.76. Unpaid stock subscriptions, items which occur at the opening of business and also in the balance sheet for the end of the first fiscal period, December 31, 1903, were entirely paid before the end of the next calendar year, so that they do not appear thereafter in the statement of assets.

The liabilities, of course, show a correspondingly large increase. The capital stock, at the beginning of business in 1902, was \$120,-

000,000, and remained unchanged in the aggregate amount until 1910, when it was raised to \$140,000,000. Meantime, however, on January 8, 1907, the \$120,000,000 common stock had been divided into equal parts of preferred and common. Comparison of items of bills and accounts payable would have little significance prior to the statement of December 31, 1904, inasmuch as the company's business was not until then well under way. From that date until December 31, 1911, the aggregate amount of these two items increased from \$3,187,357.93 to \$41,303,071.52. There was a very marked increase, therefore, in these liabilities. A large part of them, however, consisted of long-term notes. (See p. 284.) An even more marked development, perhaps, is found in the various reserves established, most of which do not appear in the balance sheets for the first two fiscal periods. These changes were partly due to changes in the methods of doing business, and partly to a more conservative policy in the determination of the earnings, as the earnings showed a more favorable relation to investment. There was also a very large increase in the surplus during this period. After having written off the nominal surplus of \$7,076,229.65 as of October 1, 1902, the surplus of the company grew to \$27,384,729.82 on December 31, 1909, dividend payments having amounted to \$30,600,000. Although a stock dividend of \$20,000,000 from surplus was made in the following year (1910), and cash dividends paid amounting to \$15,600,000, the company was able to show a surplus on December 31, 1911, of \$23,390,946.90.

Section 4. Method of revision by the Bureau.

In the foregoing section the financial results of the International Harvester Co. have been shown according to the statements of the company itself. Inasmuch, however, as the Bureau has made important changes in regard to the value of the investment in plant and other property originally acquired in 1902, its revisions necessarily result in a different rate of earnings on investment than that shown by the company's own statements. With respect also to subsequent additions to the property account certain changes have been made by the Bureau, which in like manner affect the investment, upon which the rate of earnings is to be computed. In addition to these changes, however, the Bureau considers that the statements of net earnings as made by the company after 1903 are unduly low on account of excessive reserves. While the Bureau does not criticise the integrity of the financial statements of the company in this respect, it considers that these allowances for reserves have been more than necessary. While they may be justified to a certain extent as a prudent means of conserving the financial resources of the company, and not enlarging the surplus which is held available for dividends, such reserves, in so far as they are excessive, belong in a strict analysis to earnings and surplus.

In determining the earnings of the International Harvester Co., therefore, the Bureau modified the financial statements of the company in two ways; first, in changing its property account and inventory at the beginning of business, and to a small extent with respect to subsequent additions; and, second, in restoring to the earnings and surplus of each year such parts of reserves as were deemed unnecessary deductions therefrom. The particular items which demand consideration in this connection are the deductions for bad debts and accumulated reserves for contingent losses on notes and accounts receivable, and the following special reserves, namely: Plant depreciation and extinguishment, special maintenance, collection expenses on receivables, fire insurance fund, pension fund, industrial accident fund, and contingent (deferred profits on forward sales). Each of these reserves or other deductions from the value of assets will be considered in the following sections, giving an explanation of their character and the amount, if any, which has been restored to earnings by the Bureau.

Section 5. Additions to property.

The property account of the International Harvester Co., as stated in the preceding section, has been revised by the Bureau in three ways. First, by changing the opening entries as a result of the revision of valuation of investment made by the Bureau and described in detail in Chapter III; second, by a different treatment of certain adjustments made at the beginning of business whereby \$2,096,815.14 was left by the company as a so-called item of permanent equities in inventory, etc. (see p. 220); and third, by restoring to the property account (and to earnings) certain special depreciations.

The additions to property account from the beginning of business in 1902 to the close of the fiscal year 1911 are shown in the following table:

TABLE 43.—COMPARISON OF ADDITIONS TO PROPERTY ACCOUNT OF THE INTERNATIONAL HARVESTER CO., 1903-1911, MADE BY THE COMPANY WITH THOSE MADE BY THE BUREAU.¹

Year.	Additions as shown by company.	Additions as computed by Bureau.	Year.	Additions as shown by company.	Additions as computed by Bureau.
1903 ²	* \$12,532,673.08	\$10,435,857.94	1909.....	\$2,851,832.80	\$3,151,832.80
1904.....	1,637,747.70	1,637,747.70	1910.....	5,354,793.52	5,554,793.52
1905.....	2,521,391.39	2,521,391.39	1911.....	4,697,598.32	4,897,598.32
1906.....	1,602,661.64	1,602,661.64	Total.....	34,487,311.37	33,200,496.23
1907.....	2,451,973.34	2,451,973.34			
1908.....	836,639.58	1,036,639.58			

¹ These additions include certain expenditures for ore stripping from 1907 on.

² 15 months.

* Includes \$2,096,815.14 equities in inventories and in patents. (See p. 198.)

As a consequence of the difference between the appraised values of plant property and the Bureau's estimate of the value thereof, the property account at the opening of business, according to the books of the International Harvester Co., was \$42,097,689.33, and according to the estimate of the Bureau the value of this plant property was \$28,456,327.87. By changes made subsequently to the opening of the business, particularly in respect to fall expenses on the territory (\$1,780,235.89), reductions in inventory appraisals, and their transfer from property account to trading inventory account, an item of \$2,096,815.14 was left by the company in the property account as "Permanent Equities in Inventories" and "Patents," which may be regarded as an addition made during the fiscal year 1903. The actual additions made to property in that year were \$10,435,857.94. The Bureau, in its method of stating the value of the property account, does not include, of course, this item of \$2,096,815.14, but uses simply the actual additions made during the year (\$10,435,857.94) as shown by the books of the company.

During the four years 1908 to 1911, inclusive, a special depreciation was made from the property account of the Osborne plant of \$200,000 a year. An additional \$200,000, it was stated by the officials of the company, would be charged off for the year 1912, but the investment and earnings for 1912 are not covered by the present analysis of the Bureau, as the data are not yet available. The Bureau regards this special depreciation as not warranted by the physical condition of the Osborne plant. As shown by an investigation and report made as to the condition of the Osborne plant by B. A. Kennedy to Charles Deering in September, 1902,¹ this property was in about as good condition as either the Milwaukee or Plano plants, and, according to a statement of the comptroller of the company, the plant had been kept in a good state of efficiency by expenditures for repairs and maintenance. Moreover, the same general allowance was made for depreciation of buildings and machinery in the case of this plant as in the case of all other domestic plants of the International Harvester Co. The apparent

¹ From Mr. Kennedy's report above referred to, the following excerpts are made:

Taking this plant from beginning to finish, it averages up, in equipment, buildings, etc., much better than the Plano Division, and equally as good as the Milwaukee Division; but not as good as the Springfield Division on buildings, but as good on machinery.

As to size and capacity, I should consider it equal to both the Plano and Milwaukee, except as to foundry capacity.

As to value of buildings, I should consider it equal to both the Milwaukee and Plano combined.

The ground these buildings as located is, of course, quite valuable—more so than the ground that either the Milwaukee, Plano, or Springfield plants are located on, but not in as good shape for the best of arrangement for manufacturing buildings as either of the other three.

With the appliances and the showing that they have made in manufacturing as to labor and results, I should say they fully average up with any one of the three divisions, if not somewhat better.

Mr. Kennedy made a rough estimate of the value of land, buildings, machinery, and miscellaneous tangible property, exclusive of inventories of raw material, work in progress, and finished goods, of \$2,670,540.

reason for making this special depreciation was that the International Harvester Co. regarded the price paid for the plant as unduly high as compared with the values at which the other plants stood on its books. According to a statement of the comptroller of the company, the plant was poorly situated as there was little room for expansion, while he admitted that it was possible that a little more had been paid for the property than it was worth on a tangible asset basis. Inasmuch as the plant was bought for cash or its equivalent in notes, the additions to investment can not be corrected, but in this case the price was really paid for other assets than tangible assets, as for example, the good will of the Osborne business or the increased monopoly power given to the International Harvester Co. by acquiring control of it. There is evidently no reason why an extraordinary depreciation should be allowed for the physical property which had been maintained in good condition through repairs and maintenance and for which the usual depreciation allowance on the basis of an apparently exaggerated value had already been made. The Bureau consequently has restored this special depreciation of the Osborne plant to earnings, namely, \$200,000 per annum for the years 1908 to 1911, inclusive, or a total of \$800,000. Furthermore, as this depreciation was written off the property account, a like amount in each year has been restored thereto.

A similar depreciation charge was made with respect to the McCormick fiber ranch in Lower California (see p.105) in 1909, amounting to \$100,000. This depreciation was not required, according to the Bureau's method of treating this item of property. Hence this amount was restored to the property account by the Bureau.

The only changes, therefore, which the Bureau makes with respect to additions to property are the exclusion of: (1) \$2,096,815.14 from the amount shown in the foregoing table for the year 1903; (2) \$200,000 on account of Osborne plant depreciation for each of the four years 1908 to 1911, inclusive; (3) the \$100,000 depreciation for the fiber ranch in Lower California. The total difference between the additions to plant account as computed by the Bureau and those given by the company is \$1,196,815.14.

Section 6. Depreciation, extinguishment, and special maintenance.

The International Harvester Co. maintains three classes of reserves which are closely related and which may be conveniently considered together, namely, plant depreciation, extinguishment, and special maintenance. In its balance sheets the first two items, plant depreciation and extinguishment are not stated separately, but they are shown in the annual reports.

PLANT DEPRECIATION.—The plant depreciation reserves of the International Harvester Co. are based on amounts set aside for the depreciation of buildings and machinery of manufacturing plants, etc. The greater part of this reserve is established on the basis of a uniform depreciation allowance of 2 per cent on buildings and 5 per cent on power-driven machinery. For other plant property various specific provisions are made. In addition to this, the International Harvester Co. has made a general depreciation of \$200,000 in each year for the years 1909 to 1911, inclusive, covering all manufacturing plants. The special depreciation made on the Osborne plant, however, which is described in the preceding section, namely, \$200,000 for each of the four years 1908 to 1911, inclusive, is not included in the depreciation reserve but is taken out of the plant account directly.

The net amount added by the company to plant depreciation reserve by years was as follows:

TABLE 44.—NET RESERVES FOR PLANT DEPRECIATION SET UP BY THE INTERNATIONAL HARVESTER CO., 1903-1911.

1903 -----	\$463, 685. 18
1904 -----	686, 691. 23
1905 -----	729, 476. 67
1906 -----	674, 855. 42
1907 -----	845, 064. 23
1908 -----	971, 016. 21
1909 -----	1, 249, 466. 80
1910 -----	1, 342, 504. 17
1911 -----	1, 396, 029. 12
Total -----	8, 358, 789. 03

The comptroller of the International Harvester Co. regards the depreciation of 2 per cent on buildings and 5 per cent on machinery, which constitutes the greater part of this depreciation reserve, as only a moderate and necessary charge on this account. This depreciation allowance is made on account of such depreciation as can not be prevented through expenditures for repairs and maintenance. The comptroller of the company stated that the efficiency of the plants is well maintained at the present time through repairs and maintenance.

The Bureau does not regard the general depreciation allowance made by the International Harvester Co. as excessive, and no change, therefore, has been made in respect thereto. With respect, however, to the special depreciation for the Osborne plant, the amounts so charged off from the property account have been restored to property and to earnings, as explained in the preceding section (see p. 220). In this connection it should be considered, however, that from the

point of view of the Bureau's valuation of the buildings and machinery originally acquired by the International Harvester Co., these rates of 2 per cent and 5 per cent, respectively, would be slightly enhanced on account of the lower valuation adopted by the Bureau.

EXTINGUISHMENT.—The extinguishment reserves are for ore deposits mined and standing timber cut. The coal deposits owned by the company were not exploited during the period here under consideration—1903 to 1911. The extinguishment reserves established by the International Harvester Co. were as follows:

TABLE 45.—RESERVES FOR EXTINGUISHMENT OF ORE AND TIMBER SET UP BY THE INTERNATIONAL HARVESTER CO., 1903-1911.

Year.	Ore.	Timber.	Total.	Year.	Ore.	Timber.	Total.
1903.....	\$24,541.91	.....	\$24,541.91	1909.....	\$223,178.17	\$28,185.79	\$251,363.96
1904.....	40,360.45	.....	40,360.45	1910.....	177,702.35	51,191.87	228,894.22
1905.....	59,163.15	.....	59,163.15	1911.....	183,555.30	46,949.80	230,505.10
1906.....	97,143.10	.....	97,143.10	Total..	1,170,421.36	179,396.98	1,349,818.34
1907.....	186,849.63	\$33,671.14	220,520.77				
1908.....	177,927.30	19,398.38	197,325.68				

¹ Includes previous years.

The amounts reserved for ore extinguishment showed extraordinary variations from year to year, and throw an interesting side-light on the fictitious valuation placed on certain of these ore properties in the appraisals as finally adopted. Rates of ore extinguishment per ton for the three iron-ore properties operated, namely, the Hawkins, the Agnew, and the Illinois mines, were as follows:

TABLE 46.—RATES OF EXTINGUISHMENT APPLIED BY THE INTERNATIONAL HARVESTER CO. TO ITS IRON-ORE MINES, 1903-1911.

Year.	Hawkins.	Agnew.	Illinois.	Year.	Hawkins.	Agnew.	Illinois.
1903.....	\$0.10	\$0.10	\$0.10	1908.....	\$0.42½	\$0.37½	\$0.25
1904.....	1.20	1.15	.15	1909.....	.52½	.37½	.....
1905.....	1.20	1.16	.15	1910.....	.52½	.37½	.....
1906.....	1.20	1.17	.15	1911.....	.52½	.37½	.....
1907.....	.42½	.37½	.25				

¹ Estimated.

The change of the company's ideas in respect to the value of ore in the ground is well illustrated by the extinguishment allowance for the Hawkins mine, which in 1903 was placed at 10 cents per ton, and by 1907 was raised to 42½ cents per ton. This latter figure was the assumed equity value of the leasehold interest per ton of ore in the ground as adopted for the appraisal of the Hawkins mine. In

1909 this rate of extinguishment was increased to 52½ cents per ton. It will be remembered that for the Hawkins mine the actual cost to the Deerings of the leasehold, according to the tonnage assumed to exist, was only about 4 to 6 cents per ton. Except in so far as reductions in the estimates of tonnage of the ore deposit may have been made the International Harvester Company was not warranted in charging much higher rates inasmuch as there was no great increase in the value of these mines at the time of their transfer to the International Harvester Co.

A similar situation is found with respect to the Agnew mine. The extinguishment was at first computed on the basis of 10 cents per ton for ore in the ground, but in 1907 was raised to 37½ cents per ton to correspond with the appraised value adopted for the company's equity in the ore. On the bonus payment originally made by the Deerings for the Agnew ore, using the tonnage currently estimated, 3,500,000 tons, the equity value of the leasehold per ton of ore was about 4 cents per ton. The rates of extinguishment which should have been charged by the International Harvester Co. should have been determined by the same principles as stated in connection with the Hawkins mine.

For these two mines, therefore, the Bureau recomputed the extinguishment charges on the basis of the values allowed by it and tonnages claimed by the appraisal, namely, 6.6 cents per ton on the tonnage mined from the Hawkins mine, and 4 cent for the tonnage mined from the Agnew mine.¹ The extinguishment in excess of a proper amount was determined by subtracting the extinguishment computed by the Bureau from the amount set up in the extinguishment reserve by the company. The excessive extinguishment thus computed by the Bureau for the output of these two mines was as follows:

1903	-----	\$11, 174. 99
1904	-----	23, 911. 29
1905	-----	32, 096. 79
1906	-----	59, 999. 55
1907	-----	147, 259. 33
1908	-----	144, 278. 12
1909	-----	196, 605. 05
1910	-----	156, 778. 19
1911	-----	161, 580. 61
Total	-----	933, 683. 92

The amounts of excessive ore extinguishment thus determined by the Bureau were deducted from the total extinguishment reserve and added to net earnings for the respective years.

¹ Some variation in the rates charged each year might have been made by the Bureau, on account of subsequent changes in the estimated tonnage of merchantable ore, but the data available were not sufficient for this purpose. The practice of the company in this respect does not appear to have been consistent.

The operations of the Illinois mine were comparatively insignificant, and the total amount of extinguishment made for the ore mined therefrom was only \$57,606.25, according to the accounts of the International Harvester Co. The Bureau did not attempt to make any correction in this small item, although there is no doubt that it was computed at an unduly high rate.

The extinguishment reserve for timber depletion was undoubtedly excessive also. The Bureau's data on this matter were somewhat incomplete and did not distinguish the amounts charged to reserves by years for a part of the period under consideration (1903 to 1911). From 1903 to 1909 the timber depletion reserve was computed on the basis of \$2 per thousand board feet cut, and for the years 1910 and 1911 at the rate of \$3. On the basis of the Bureau's valuation of the timber in 1902, when it was acquired by the International Harvester Co., these rates were undoubtedly somewhat too large, but on the basis of the appraisal adopted by the company they were too small. The total amount, however, was only \$179,396.98 for the whole period 1903 to 1911. Inasmuch as the total amount was comparatively small, and furthermore, as it was impossible to make an accurate revision by years, the Bureau let this timber depletion reserve stand without change.

The only changes made, therefore, in the company's reserves for ore and timber extinguishment are those indicated above for the Hawkins and Agnew mines. These amounts, as already stated, were deducted from the extinguishment reserve and restored to net earnings for the respective years.

SPECIAL MAINTENANCE.—A reserve for special maintenance was first established by the International Harvester Co. in 1908 and was continued during subsequent years, the total amount as set up in the company's books being as follows:

1908	\$469, 653. 14
1909	569, 087. 92
1910	243, 379. 48
1911	58, 690. 12
Total	1, 340, 810. 66

At the beginning this reserve was established on the basis of reports indicating specific appropriations needed for replacement, but subsequently an arbitrary charge of 1 per cent on the cost of reproduction of buildings and machinery was made instead.

The principle on which this reserve is set up is as follows: From time to time it is necessary for the company to make expenditures for replacement or reconstruction of plants or improvements which do not add to the productive value of the investment of the com-

pany, but which are necessitated either by the condition of the property, or other circumstances. Such contingencies arise in some cases in a regularly recurring manner, but in other cases are more or less casual. It is not proper to add such expenditures for improvements to the capital account of the company, and consequently the company sets up a reserve from which such expenditures may be made from time to time as occasion demands. For example, in the operation of blast furnaces it is necessary from time to time to reline the furnace. This does not add anything to the real investment of the company, but is a more or less regularly recurring expense. When expenditures are made on account of such relining, the amount is deducted from the reserve for special maintenance. A good illustration of a casual expenditure of this sort is track elevation, which certain conditions necessitated with respect to the Illinois Northern Railway—the industrial railroad of the McCormick plant. Such expenditure may add nothing to the value of the investment and if so can not be added to the property account.

With respect to this special maintenance reserve, the Bureau decided that in so far as it was not required for a definitely recurring expense, like blast furnace relining, or in so far as it had not been expended in improvements of the kind indicated, such reserve, though convenient as a matter of financial administration and accounting, was not a real and necessary deduction from earnings. On this basis, therefore, the Bureau allowed the reserves for furnace relining set aside by the company, and also the amounts actually expended for track elevation, but not already charged from reserve, also all amounts actually expended from the reserves set up, and restored the balance of this special maintenance reserve to the earnings of the respective years in which such reserves were made. The amounts so restored to earnings were as follows:

1908-----	\$199,765.77
1909-----	569,498.50
1910-----	266,999.96
1911-----	5,724.78
Total-----	<u>1,041,989.01</u>

Section 7. Fire insurance, accident insurance, and pension reserves.

Among the reserves set up by the International Harvester Co., those for fire insurance, accident insurance, and pension fund may conveniently be grouped together.

FIRE-INSURANCE RESERVE.—The International Harvester Co. has established the policy of insuring its own property to a considerable extent, depending on the character of the risk. The total amount placed in the reserve each year, the amount charged to the reserve

for fire losses, and the net amount added to reserve each year, are shown in the following table:

TABLE 47.—RESERVES FOR FIRE INSURANCE SET UP BY THE INTERNATIONAL HARVESTER CO., 1905 TO 1911.

Year.	Total reserve created.	Amount charged against reserve for fire losses.	Net amount added to reserve.
1905.....	\$138,674.03	\$37,133.25	\$101,540.78
1906.....	177,375.69	23,921.99	153,453.70
1907.....	178,257.71	108,020.55	70,237.16
1908.....	425,847.19	79,985.60	345,861.59
1909.....	502,519.74	80,151.24	422,368.50
1910.....	505,070.48	53,639.96	451,430.52
1911.....	579,645.27	63,137.70	516,507.57
Total.....	2,507,390.11	445,990.29	2,061,399.82

In the case of the property of all of the affiliated companies of the International Harvester Co., including the America Co., the amount of premium which would be necessary for insurance, in case the insurance was carried by regular insurance companies, is turned into this reserve as a fund to cover losses on such property.

In the case of the International Harvester Co. itself, however, on account of the very large size of the plants, and hence the large units of risk, it is not practicable for the company to carry its own risks, inasmuch as such properties are well equipped with safety devices and obtain rates from mutual insurance companies which are lower than the company could assume on the basis of self-insurance.

Such insurance companies, however, do not insure the plants to the full value. On account of these uninsured fractions and also on account of certain other kinds of property, such as large stocks of lumber, etc., which it would not be practicable or perhaps possible to insure or fully insure with ordinary companies, the International Harvester Co. sets aside each year a considerable amount from earnings for the purpose of building up a reserve from which fire losses may be charged as they occur. The amount thus appropriated by the company has been \$250,000 per annum, beginning in 1908. The comptroller of the company states that so far as commercial rates of insurance are applicable to such risks similar rates are used by the company. The total amount set up in this way, however, is apparently larger than required for current risk, as indicated by the comparative amounts of additions and losses as shown in the foregoing table.

Inasmuch, however, as the fire insurance reserve of the company seems to have been established on a reasonable basis in general, and as it would be practically impossible for the Bureau to make an

accurate or satisfactory revision of the reserve so established, it does not attempt to make any deduction from this reserve nor to restore any part thereof to earnings.

ACCIDENT-INSURANCE RESERVE.—The accident insurance reserve is established for the purpose of meeting extraordinary obligations for industrial accident insurance. The International Harvester Co. has established a system of accident insurance for its employees at its own expense, with regular allowances for death, loss of limb or other kinds of accidents. The ordinary payments to which the company becomes liable under this arrangement are charged directly into expense, or, in other words, deducted from earnings. This accident reserve, on the other hand, is accumulated for special contingencies, such as catastrophes of unusual character, in which case the burden of expense for accident would fall with undue severity on the expenses of a single year. In the opinion of the company there is no practicable rule for establishing the necessary amount, and it is simply judged desirable to establish a considerable fund for this contingency. Two hundred and fifty thousand dollars was appropriated for this purpose in 1910, and a second appropriation of like amount was made in 1911. During 1911 the reserve was increased by interest on this reserve of \$12,500, so that the total amount at the end of 1911 stood at \$512,500. Although this deduction from earnings was not a real expense of the company, the amount was comparatively small and, considering especially the purpose of it, the Bureau decided that it was not necessary to restore any portion of it to earnings.

PENSION RESERVE.—The International Harvester Co. has also established a plan of pensions for its employees, and for the purpose of meeting the obligations it voluntarily incurs thereunder, it has, since 1908, established certain reserves from its earnings. This reserve was established in 1908, and for that year and each succeeding year \$250,000 has been set aside. The interest on this fund is kept in the reserve. The total amount standing in the reserve each year and the amounts charged to this reserve for pensions paid and the net amounts added to reserve are shown in the following table:

TABLE 48.—RESERVES FOR PENSIONS SET UP BY THE INTERNATIONAL HARVESTER CO., 1908 TO 1911.

Year.	Total amount added to reserve.	Amount charged to reserve.	Net amount added to reserve.
1908.....	\$250,000.00	.....	\$250,000.00
1909.....	262,284.00	\$9,629.78	252,654.22
1910.....	274,791.98	16,154.76	258,637.22
1911.....	287,600.58	21,172.75	266,427.83
Total.....	1,074,676.56	46,957.29	1,027,719.27

It will be noted that a reserve exceeding \$1,000,000 has been accumulated during a period in which less than \$50,000 has been paid out in pension allowances. The principle on which this fund is established was explained by the comptroller of the company as follows: To build up as fast as earnings of the company would permit a fund sufficiently large to afford an annual revenue from investment to pay all the liabilities incurred by the company under the pension plan. The amounts which have been set aside from earnings are very much in excess of the accrued liabilities on account of pensions due. While, therefore, the Bureau might have restored a considerable part of these reserves to earnings, it did not think that under the circumstances such a course was necessary.

Hence, with respect to these three reserves, namely, fire insurance, industrial accident, and pension fund, the Bureau has allowed the whole amount of the reserve as a reduction from earnings and from surplus.

Section 8.—Reserves for collection expense, bad debts and contingent losses on receivables, and deferred profits on forward sales.

These three reserves have a common characteristic in their relation to the value of the bills and accounts receivable of the International Harvester Co.

COLLECTION EXPENSE.—The International Harvester Co. makes appropriations from year to year for a reserve for collection expenses on receivables, on the theory that its receivables outstanding at any time can not be realized on without incurring a large expense for collecting them owing to their vast number and wide distribution. On the same principle it could not sell them without incurring a considerable discount, however good the paper, on account of the expense of collection. The reserve which has been set up for collection expense was first established in 1906, when \$500,000 was appropriated from earnings. In each succeeding year, down to and including 1911, \$100,000 has been added to this reserve, so that the total amount in the collection reserve at the end of 1911 was \$1,000,000. The total amount of bills and accounts receivable at the end of 1911 was \$72,888,587.76. This form of reserve, while generally characteristic of the implement industry, is not peculiar to the International Harvester Co. For these reasons, therefore, the Bureau has considered it proper to allow these appropriations from earnings.

BAD DEBTS AND CONTINGENT LOSSES ON RECEIVABLES.—In order to provide for losses on account of bad debts the International Harvester Co. makes provision in two ways. In the first place direct provision is made for discounts, allowances and bad debts in the books of the subsidiary companies and such deductions are made from receivables before the amounts of such receivables are shown in the combined balance sheet of the company. In the second place, an

additional allowance much larger in aggregate amount is made in the combined balance sheet itself for "accumulated reserves for contingent losses" on receivables.

The general policy of the company is not to write off bad debts, even when there is little expectation of payment, first, because such a practice would tend to diminish the activity of the collection department in making collections on such paper, and secondly, because it would complicate the methods of handling their collection accounts.

The net amount deducted from receivables for discounts, allowances, and bad debts in the books of the subsidiary companies referred to above was as follows:

1907 -----	\$431, 849. 05
1908 -----	136, 068. 04
1909 -----	211, 013. 87
1910 -----	263, 741. 49
1911 -----	426, 065. 74
Total -----	1, 468, 738. 19

As far as the information of the Bureau goes, only a very small portion of this total amount has been actually written off the books of the company.

The accumulated reserve for contingent losses on receivables is established by the International Harvester Co. through annual appropriations from earnings to a fund or reserve. The amount of these appropriations is determined to a greater or less extent by the actual experience of the company in the collection of its receivables. Only a portion of the amount so set apart has been charged off on account of receivables written off the books. The annual reports of the company show the balance remaining for the preceding year, the provision for the current year, and the amounts charged off during the same period. The provisions for each year, the amounts charged against such reserves, and the net amount added to the reserve are shown in the following table:

TABLE 49.—RESERVES FOR BAD DEBTS AND CONTINGENT LOSSES ON RECEIVABLES BY THE INTERNATIONAL HARVESTER CO., 1903 TO 1911.

Year.	Amounts appropriated from earnings.	Amounts charged to reserve.	Net amount added to reserve.
1903.....	\$450,000.00	¹ \$25, 198. 79	\$475, 198. 79
1904.....	350,000.00	80, 510. 20	269, 489. 80
1905.....	400,000.00	206, 244. 70	193, 755. 30
1906.....	400,000.00	244, 119. 26	155, 880. 74
1907.....	600,000.00	¹ 108, 553. 43	708, 553. 43
1908.....	650,000.00	228, 048. 15	421, 951. 85
1909.....	780,000.00	360, 204. 11	419, 795. 89
1910.....	900,000.00	470, 601. 78	429, 398. 22
1911.....	970,000.00	906, 857. 80	63, 142. 20
Total.....	5, 500, 000. 00	2, 362, 833. 78	3, 137, 166. 22

¹ Credit.

In justifying these large reserves for bad debts and contingent losses on receivables the comptroller of the International Harvester Co. made the following statement:

In connection with the reserve for bad debts, we aim to keep that reserve merely the equivalent of the losses which will ultimately be sustained in the collection of the receivables taken on each season's business. During the first six years of the company's operation we provided a reserve for bad debts approximately equivalent to one per cent of the sales for each year. Up to December 31, 1908, there had been provided in this way a total bad-debt reserve of \$3,325,000.00. In June, 1911, when a sufficient time had elapsed to collect the bulk of the receivables taken in the first six years of the company's operation and when a fairly accurate estimate could be made of the loss still to be sustained on those uncollected at June 30, 1911, it was found that the actual bad debts would amount to \$3,224,000.00.

After this information had been obtained, consideration was then given to the amount of the reserve for bad debts which should be set aside in 1909, and inasmuch as the company's business was extending rapidly in certain foreign countries, where the agricultural development was still in its infancy, and where consequently a proportionately larger volume of notes had to be taken, it was considered advisable to increase the bad-debt reserve to $1\frac{1}{4}$ per cent of the sales. As this expansion continued in 1910 and 1911, and as the company continued to do an increasing volume of business directly with local agents rather than through foreign jobbers, the percentage of bad debts for those two years was increased to $1\frac{1}{4}$ per cent. It is possible that this percentage may be slightly higher than will ultimately be required, but until proof is established the company is not justified in charging a lower percentage for bad debts than $1\frac{1}{4}$ per cent.

After a careful consideration of the question the Bureau decided that no reduction should be made from the reserve for contingent losses on receivables, nor for the provision made on account of bad debts, etc., in the accounts of the subsidiary companies.

DEFERRED PROFITS ON FORWARD SALES.—The annual report for 1911 gives the following explanation and justification for the reserve for deferred profits on forward sales:

Assuming a continuance of present credit methods and the same proportion of forward sales, it is considered advisable to gradually establish a contingent reserve for deferred profits on forward sales. Theoretically and technically, a profit is earned when a sale is made; but when the actual realization of the profit on certain sales is deferred a considerable time beyond the close of the fiscal year, it is obviously a conservative and sensible policy to establish a contingent reserve to meet this condition inherent in the business. This policy prevents the misleading transfer of book earnings to surplus, where a long period of time elapses between the date of the sale and the realization of the profit in cash.

To put the matter more concretely, the International Harvester Co. sells a large quantity of goods to dealers, many of whom, as a matter of fact, if their business does not go prosperously, may not be able to pay for them at the usual settlement period in the autumn. The company, therefore, may be put in the position of having to take back the goods and of failing to realize a profit which it would otherwise make on the sale, or else of having to carry over the dealer by allowing him to retain the goods and extending the period of credit for payment thereon. The officials of the International Harvester Co. claim that in the latter case, which is generally the only practical course of procedure, they practically, if not technically, fail to realize the profit at that time which would otherwise accrue on such sales and that such profit, practically at least, does not accrue until the dealer is able to dispose of the goods and make the necessary payments to the company on his account.

The comptroller of the company in discussing this provision said:

With all salesmen there is a natural desire to swell the volume of their sales; * * *

* * * The salesman says: "Well, if you haven't disposed of these goods at the close of the season, I will extend your note for six months, or I will extend it until the succeeding fall." Therefore, while theoretically and technically speaking the delivery constitutes a sale, at the same time, when this condition (which appears to be inherent in all similar companies) exists, it is not good accounting to currently take a profit on such sales.

Q. Well, you have bad debts already covered by an allowance against your receivables on your asset side.—A. Yes, but if the representatives of the accounting department could go directly back to each dealer in order to ascertain whether the shipment was a genuine outright sale, or whether there was some conditional clause contingent thereto, we might at the close of each year be able to so adjust the books as to remove from the sales column these contingent shipments; but where the dealers are scattered all over the world, obviously that is impossible. So to offset that condition in the books we provide this contingent reserve, which prevents the anticipation of profits, and anticipation of profits is fatal in any business.

The provisions thus made for deferred profits on forward sales were commenced in 1908 and have been continued by annual appropriations to this reserve in the succeeding years. The total amounts thus appropriated and set up, by years, are as follows:

1908.....	\$750,000.00
1909.....	500,000.00
1910.....	500,000.00
1911.....	750,000.00
Total.....	2,500,000.00

The Bureau, while admitting that such a reserve for deferred profits on forward sales may be a very prudent business policy, does

not think the amounts appropriated to this reserve should be deducted from the earnings of the respective years. The principle on which this reserve is established apparently presupposes a widespread failure of dealers to pay for machines which they have purchased, and for which they are bound to pay. The officers of the International Harvester Co. could not show that in practice there had occurred any general failure on the part of the dealers to meet such obligations, nor that any accounts or bills receivable on account of such sales were not fully protected by the provisions made for bad debts and contingent losses on receivables.

For these reasons, therefore, the Bureau treated the amounts appropriated each year for this reserve for deferred profits on forward sales as really a part of earnings and surplus.

Section 9. Net earnings and rates of profit on investment, as computed by Bureau.

NET EARNINGS.—Net earnings of the International Harvester Co. as computed by the Bureau differ from the net earnings as stated by the company itself, partly on account of the different treatment of the property accounts, but chiefly on account of the restoration of reserves, or certain parts of them, to earnings. The most marked difference between the statement of earnings as made by the Bureau and as made by the company, is found in the earnings for the first 15 months of the operations of the company. As explained in detail in the first part of this chapter (see p. 200), the International Harvester Co.'s claim of earnings of \$5,641,180.61 was dependent almost entirely upon a reduction in the valuation of its inventories at the opening of the period, and on the writing down of its original, nominal surplus of \$7,076,229.65. In fact, if it had not left in its property account an item of \$2,096,815.14, which corresponded to nothing in the way of tangible property whatever, its rate of profit on that account alone would have been reduced to about $3\frac{1}{2}$ million dollars for the 15 months ending December 31, 1903. Inasmuch as the Bureau did not think it proper to make such a marked reduction of inventories as was made by the company, for the reasons already fully explained in this chapter, the net earnings for the year 1903 as computed by the Bureau were, as a consequence, correspondingly less, and amounted in fact to only \$796,822.92. As previously explained, the earnings for the 12 months ending 1903 (that is, disregarding the 1902 fall expenditures of \$1,780,235.89) were \$2,577,058.81.

The other changes made in the earnings, as computed by the Bureau, were in no year comparable in significance with those made for the 15 months ending December 31, 1903, and resulted almost

wholly from the restoration of reserves, or certain parts of reserves, to net earnings, already explained in detail in the present chapter.

The earnings of the International Harvester Co., as stated by the company and as revised by the Bureau, are shown in the following table:

TABLE 50.—NET EARNINGS OF THE INTERNATIONAL HARVESTER CO. ACCORDING TO THE COMPANY'S STATEMENTS AND AS COMPUTED BY THE BUREAU, BY YEARS, 1903 TO 1911.

Year.	Company.	Bureau.	Increase shown by Bureau.
1903 ¹	\$5,641,180.61	\$796,822.92	\$4,844,357.69
1904.....	5,658,534.68	5,682,445.97	23,911.29
1905.....	7,479,187.36	7,511,284.15	32,096.79
1906.....	7,346,947.32	7,406,946.87	59,999.55
1907.....	8,080,457.51	8,227,716.84	147,259.33
1908.....	8,885,682.13	10,179,726.02	1,294,043.89
1909.....	14,892,740.21	16,458,843.76	1,566,103.55
1910.....	16,084,819.19	17,208,597.34	1,123,778.15
1911.....	15,521,397.89	16,638,703.28	1,117,305.39
Total.....	89,590,946.90	90,111,087.15	520,140.25

¹ Fifteen months, ending Dec. 31, 1903.

² Decrease.

The aggregate earnings during the nine years, 1903 to 1911, as shown by the company, were \$89,590,946.90, as against \$90,111,087.15, as shown by the Bureau, a difference of only \$520,140.25. Although the Bureau's computation shows much higher earnings for the four years, 1908 to 1911, namely, \$5,101,230.98, than according to the company's statement, this increase was practically offset by the reduction in earnings shown by the Bureau's computation for the 15 months' period, 1903, namely, \$4,844,357.69. For the years 1904 to 1907, inclusive, the changes made by the Bureau in its computation of net earnings were of comparatively little importance.

In order to show the relation of net earnings to investment, it is necessary to give a statement of the assets and liabilities of the company as revised by the Bureau.

ASSETS AND LIABILITIES.—The Bureau's statement of the assets and liabilities of the International Harvester Co. for the fiscal years of the company differs from the company's statements of its assets and liabilities, chiefly on account of the differences in the opening entries. The Bureau shows, on October 1, 1902, an item of overvaluation, or good will, in the statement of assets, namely, \$10,882,643.92, in place of surplus in the statement of the liabilities, namely, \$7,076,229.65. This difference in the opening entries naturally results in corresponding changes for the earlier years of the company's

business. The actual surplus accumulated by the company through net earnings, but not paid out in dividends, was not sufficient to counterbalance the opening item of overvaluation, or good will, until the close of the year 1908. In that year, according to the Bureau's statement, the International Harvester Co. first obtained a real surplus, disregarding good will, which amounted, on December 31, 1908, to \$2,522,298.85. This was increased by December 31, 1911, to \$13,028,443.23. Since the company itself takes no account of good will, this surplus may be compared with the surplus reported by the company at the latter date of \$23,390,946.90, giving a difference in surplus at the end of 1911 of \$10,362,503.67. As stated above, this difference in the surplus of the company was largely due to the different opening entries adopted by the Bureau. However, certain minor changes made in the property account, and extensive changes made with respect to the items of extinguishment, special maintenance, and deferred profits on forward sales, which have been described in detail in the present chapter, also contributed in an important degree. The other items of assets and liabilities were not affected by the changes made by the Bureau.

The statements of assets and liabilities at the beginning of business and for the fiscal years of the International Harvester Co., according to the computations made by the Bureau, are shown in the following table:

TABLE 51.—CONDENSED BALANCE SHEETS OF INTERNATIONAL HARVESTER CO., AS REVISED BY THE BUREAU, DEC. 31, 1902-1911.

[In this statement no allowance is made for good will.]

	1902 ¹	1903	1904	1905	1906	1907	1908	1909	1910	1911	Increase in 1911 com- pared with 1902.
ASSETS.											
Property account.....	\$28,456,327.87	\$28,456,327.87	\$38,892,185.81	\$40,529,933.51	\$43,051,324.90	\$44,653,986.54	\$47,105,959.88	\$48,142,559.46	\$51,294,432.26	\$56,849,225.78	.....
Additions during year .....	.....	10,495,857.94	1,637,747.70	2,521,391.39	1,602,661.64	1,901,680.98	847,460.37	3,016,584.31	5,478,439.25	4,790,769.16	\$32,282,592.74
Stripping expendi- tures .....	.....	.....	.....	.....	.....	650,292.36	189,179.21	135,248.49	76,354.27	108,829.16	1,037,903.49
Total	28,456,327.87	38,892,185.81	40,529,933.51	43,051,324.90	44,653,986.54	47,105,959.88	48,142,559.46	51,294,432.26	56,849,225.78	61,746,824.10	33,290,496.23
Deferred charges.....	.....	442,067.05	478,473.41	687,795.42	667,776.48	285,237.66	189,683.08	153,413.79	190,215.33	206,888.08	206,888.08
Insurance funds.....	.....	.....	.....	.....	.....	.....	400,832.20	1,070,862.50	1,514,312.50	1,514,312.50	1,514,312.50
Inventory.....	21,230,650.31	42,891,391.20	43,032,131.97	47,257,637.93	49,317,885.88	50,287,525.77	47,687,056.26	53,399,926.84	61,646,434.80	69,592,780.86	48,362,130.55
Bills receivable.....	1,206,775.00	12,712,958.62	18,446,262.84	18,580,977.26	21,735,360.10	26,583,001.10	25,471,132.81	29,762,945.15	39,859,973.30	52,910,943.11	51,704,168.11
Accounts receivable	1,995,299.93	8,998,808.62	9,952,124.86	12,470,743.26	12,894,337.56	14,611,387.27	13,064,927.11	19,103,716.45	18,720,597.99	19,977,644.65	17,982,344.72
Cash.....	95,480.47	8,319,745.78	4,937,586.27	2,320,084.68	4,050,865.61	3,673,893.94	9,339,054.90	5,426,889.32	4,561,171.25	6,074,151.86	5,978,674.39
Unpaid stock sub- scriptions.....	59,851,803.34	3,220,335.10	.....	.....	.....	.....	.....	.....	.....	.....	459,851,803.34
Deficiency of tan- gible assets.....	10,882,643.92	13,685,821.00	12,803,375.03	10,092,090.88	7,465,144.01	3,457,427.17	.....	.....	.....	.....	310,882,643.92
Total	123,718,980.64	129,133,313.18	130,179,887.89	134,460,554.33	140,745,356.18	145,804,582.79	146,045,285.89	160,201,991.81	183,341,930.95	212,023,545.16	88,304,564.32

LIABILITIES.												October 1.		December 31.	
Capital stock.....	120,000,000.00	120,000,000.00	120,000,000.00	120,000,000.00	120,000,000.00	120,000,000.00	120,000,000.00	120,000,000.00	120,000,000.00	140,000,000.00	140,000,000.00	20,000,000.00			
Purchase-money obligations.....	916,753.40	5,084,678.89	6,067,648.88	5,161,337.68	4,244,740.55	3,450,194.63	.....	2,250,000.00	1,125,000.00	879,500.00	.....	\$57,253.40	
Bills payable.....	2,694,172.63	300,346.13	.....	778,560.00	7,778,560.00	10,465,775.36	8,296,664.95	5,824,750.00	13,778,045.46	30,918,341.68	28,224,169.05	28,224,169.05		
Accounts payable.....	108,054.81	2,796,037.27	3,187,357.93	5,564,036.46	4,224,002.03	5,693,442.94	5,529,387.58	6,140,531.02	9,763,111.68	10,384,729.84	10,276,675.03	10,276,675.03			
Depreciation reserve.....	.....	477,052.10	1,180,192.49	1,986,735.52	2,648,734.49	3,567,060.16	4,591,123.93	5,895,349.64	7,309,969.84	8,774,923.45	8,774,923.45	8,774,923.45		
Special maintenance reserve.....	.....	.....	.....	.....	.....	.....	269,887.37	269,476.79	245,856.31	298,821.65	298,821.65	298,821.65
Collection expense reserve.....	.....	.....	.....	.....	500,000.00	600,000.00	700,000.00	800,000.00	900,000.00	1,000,000.00	1,000,000.00	1,000,000.00
Pension fund reserve.....	.....	.....	.....	.....	.....	.....	250,000.00	502,654.22	761,291.44	1,027,719.27	1,027,719.27	1,027,719.27
Fire insurance reserve.....	.....	.....	.....	101,540.78	254,994.43	325,231.64	671,083.28	1,093,461.73	1,544,892.25	2,061,399.82	2,061,399.82	2,061,399.82
Industrial accident reserve.....	.....	.....	.....	.....	.....	.....	.....	.....	260,000.00	512,600.00	512,600.00	512,600.00
Contingent losses reserve.....	.....	475,198.79	744,688.59	938,443.89	1,094,324.63	1,802,878.06	2,224,829.91	2,644,625.80	3,074,024.02	3,137,166.22	3,137,166.22	3,137,166.22		
Surplus.....	.....	.....	.....	.....	.....	.....	2,522,298.85	14,781,142.61	4,589,739.95	13,028,443.23	13,028,443.23	13,028,443.23
Total.....	123,718,980.84	129,133,313.18	130,179,887.89	134,460,654.33	140,745,356.18	145,804,682.79	145,045,285.82	160,291,991.81	183,341,580.95	212,023,545.16	212,023,545.16	89,304,664.32			

October 1.

Decrease.

As stated above, the net result of the Bureau's revision of assets and liabilities is to show a surplus of \$13,028,443.23 at the end of 1911, instead of a surplus of \$23,390,946.90, as shown by the company's accounts. The difference is the net result of the Bureau's reduction of the assets on the one hand and its reduction of the reserves on the other. The Bureau has added nothing for subsequent appreciation, which doubtless would be necessary if a fair appraisal were made at the present time.

RATE OF PROFIT.—For the purpose of computing the profits on the investment of the company the net assets are taken. The net assets for each year are computed by taking the gross assets and deducting therefrom all liabilities except capital stock and surplus. The rate of profit of the company is computed by comparing the net earnings, as computed by the Bureau, for each year with the net assets at the beginning of the same year, which is the method used by the company. The net assets and net earnings, as computed by the Bureau, and the per cent of profit on such net assets, are shown in the following table:

TABLE 62.—RATE OF NET EARNINGS OF THE INTERNATIONAL HARVESTER CO. ON NET ASSETS, EXCLUSIVE OF GOOD WILL, AS COMPUTED BY THE BUREAU, BY YEARS, 1903-1911.

Year ending Dec. 31—	Net assets, exclusive of good will.	Net earnings.	Profit on assets at beginning of year.	Year ending Dec. 31—	Net assets, exclusive of good will.	Net earnings.	Profit on assets at beginning of year.
			<i>Per cent.</i>				<i>Per cent.</i>
1902 ¹	\$109,117,356.08	.....		1909.....	\$134,781,142.61	\$16,458,843.76	13.43
1903.....	106,314,170.00	\$796,822.92	0.73	1910.....	144,589,739.95	17,208,597.34	12.77
1904.....	107,196,624.97	5,682,445.97	5.34	1911.....	.....	16,638,703.28	11.61
1905.....	109,907,909.12	7,511,284.15	7.01	Total.....	.....	90,111,087.15	.....
1906.....	112,514,855.99	7,406,946.87	6.74	Average.	118,165,186.60	10,012,343.02	8.47
1907.....	116,542,572.83	8,227,716.84	7.31				
1908.....	122,522,298.85	10,179,726.02	8.73				

¹ Oct. 1.

² This covers 15 months, but no change has been made for this period nor for the average of all the years on that account. This is in harmony with the company's method of treatment. For an explanation of the exceptionally low earnings of 1903, see pp. 207-210.

From the foregoing computation of the Bureau it appears that the average net earnings on the net investment of the company for the nine years and three months ended December 31, 1911, was 8.5 per cent. The rate of earnings for 1903 (really 15 months) was less than 1 per cent, and only in this year does the Bureau's percentage differ very markedly from that of the company; the reasons for this difference have been already fully explained, and relate chiefly to the different method of handling the 1902 inventory. Leaving this exceptional period out of consideration the rate of earnings ranged from 5.3 per cent in 1904 to 13.4 per cent in 1909. The average rate of

earnings for the last three years, namely, 1909 to 1911, inclusive, was 12.5 per cent. It will be noted that the rate of profit for 1911 was 11.5 per cent as against a maximum of 13.4 per cent in 1909. Final figures for 1912 have not yet been determined, but so far as indicated point to about the same amount as in 1911.

In the foregoing computations of profit the net assets of the company as revised by the Bureau have been used without any allowance for good will. In view of the difficulty of establishing a fair valuation for the good will, which might change from year to year, and furthermore in view of the fact that the company makes no entry for good will on its books, any attempt to compute a rate of earnings which would include this would be more or less problematical. Had any considerable allowance been made in the net assets for good will, the rate of profit would necessarily have been lower.

Hence, while the profits of the International Harvester Co. on the average for the earlier period of its operations were not excessive, the profits for the three-year period, 1909 to 1911, inclusive, have been distinctly high. In judging of the reasonableness of this rate of profit it is proper to consider the fact that the risk of the company's business is comparatively small, owing to its world-wide character, which to a large degree is an insurance against the effects of local disturbances of business prosperity. It is also important to bear in mind the fact that the business rests in part on a monopolistic basis, which not only tends to reduce the element of risk, but also makes it desirable from a public standpoint that the rate of profit should not be higher than a reasonable return to the capital invested.

Section 10. Profits and prices in particular lines.

The best test of the general price policy of a company which has such a large part of the total business in its field as that possessed by the International Harvester Co. is found in its profits. If the average profits are unduly high, the prices in general may be presumed to be excessive, and vice versa. Where, however, the business relates to a great many different kinds of commodities, as in the case of the International Harvester Co., general conclusions of this sort based on average profits may not be valid for particular branches of the business. Prices may be very high in some lines, and very low in others, so that the general average profit does not show the real conditions with respect to the prices of the particular kinds of machines. Hence, it is important to consider the chief kinds of machines separately. The best test as to whether the prices are high or low, disregarding temporary aberrations, is also found in the determination of the profits obtained for such particular lines. If, for example, it is found that the profits made on grain harvesting machines are unduly high, then it can be safely assumed that the prices of such

machines are excessive, or if the profits made on twine are abnormally low, it may be concluded that the prices of twine are unduly depressed.¹

A noteworthy feature of the business of the International Harvester Co. is that the rate of profit, whether on sales or on investment, for the highly monopolistic lines—that is, for grain, grass, and corn harvesting machines—is very much higher than the corresponding rates for several of the important new lines, such as wagons and spreaders, where the company encounters a greater degree of competition. In recent years its twine business also has on the average returned a low rate of profit. On wagons, in which the company's percentage of the business is comparatively small, the rate of return is admittedly much less than on the monopolistic lines. Even in manure spreaders, where the company apparently does about half the business of the United States, the profits are comparatively low. This is probably due to the aggressive sales policy which the company has followed in its wagon and manure spreader business. One explanation of the low rate of profit on twine is the competition of State prison factories in some of the Northwestern States, notably Minnesota; the abnormal condition of the fiber market in 1909 also affected the twine profits in 1910.

PRICES IN RELATION TO COST OF PRODUCTION.—The marked difference between the profit realized by the company on its monopolistic lines and on other lines is suggested by the following table, which shows for different machines the cost of production at the factory in 1910 and 1911 and the average net price received by the company, after deducting discounts, but not freight and duty.

TABLE 53.—COMPARISON OF FACTORY COSTS¹ AND AVERAGE NET PRICES FOR SPECIFIED MACHINES AND TWINE FOR THE TOTAL BUSINESS OF THE INTERNATIONAL HARVESTER CO. IN 1910 AND 1911.

Item.	1910		1911	
	Factory cost.	Average net price. ²	Factory cost.	Average net price. ³
Grain binders, 5-foot, 6-foot, 7-foot ⁴	\$55.09	\$110.45	\$56.54	\$111.52
Reapers.....	33.05	67.43	32.89	68.63
Mowers.....	19.90	39.12	21.32	40.03
Rakes.....	10.91	19.93	11.54	20.24
Corn binders.....	46.17	101.02	47.22	101.82
Manure spreaders.....	53.84	90.09	55.91	88.09
Wagons, 2-horse.....	46.09	59.68	48.17	61.21
Twine, per pound.....	.067	.077	.053	.069

¹ As noted below, temporary aberrations occurred in the fiber market in 1909.

² A large part of the indicated difference between factory cost and average net price consists of selling expense, freights, and other expenses.

³ Deducting discounts, but not freight and duty.

⁴ The company reduced the domestic price of binders \$5 in 1912 and gave as its reason for doing so the decreased cost of materials.

It should be remembered in connection with the above table that besides the large selling expense proper the company incurs more or less expense in the collection of its bills and accounts receivable, and that there are general expenses connected with the business of manufacturing that are not included in the above costs. It follows that no estimate of the net profits per machine can be based on this table. The table is of interest, however, as it shows that the above-mentioned selling and general expenses, together with the profit of the manufacturer, are greater than the cost of producing the machines in the case of corn binders and reapers, substantially equal to the cost of grain binders, and not much less for mowers and rakes. In marked contrast to the large gross margin on the above machines is the difference between the cost of manufacturing wagons and the average price received for them. As will be noted from the table, the cost of producing a wagon is more than 75 per cent of the price received by the company. In the case of twine, selling expenses are relatively much smaller, and the average margin is naturally lower. In 1910 the cost of manufacture of twine was 87 per cent of the selling price and in 1911 it was 77 per cent. The conditions in 1910, however, were exceptional.

The prices and costs shown above are for the entire business of the company in the lines covered. A table contrasting prices received in the United States and in foreign countries will be found on page 244. The higher prices shown by that table for the foreign sales of the company do not indicate correspondingly higher net profits on sales, for in this business there are heavy additional expenses incurred in the cost of producing and packing the goods, and in higher freights and in duties, while the selling expenses are often higher.

NET EARNINGS ON SALES.—Although the fact has been emphasized above that the large gross margin between cost of production and price received by the company should not be taken as a measure of the net earnings of the company, it is nevertheless true that on the monopolistic lines, such as the grain, grass, and corn machines, the net earnings of the company on proceeds of sales, as will be shown presently, are much higher than on spreaders and wagons, in which the stress of competition seems to be most severe. This is probably in part because the large-scale manufacturer enjoys no such advantage over small manufacturers in the production of wagons as in the manufacture of complicated machines, such as the grain binder, and probably also in part because there are a number of manufacturers of wagons located in different sections of the country, who enjoy advantages in regard to freight in their localities, both on raw materials and finished product. A more important fact is that the International Harvester Co. has carried on an aggressive competitive campaign in the wagon business, which has resulted in increasing its pro-

portion of the entire wagon business of the country from about 4 per cent in 1905 to about 15 per cent in 1911.

The proportion of net earnings to net proceeds of sales for different lines of the company's business in the United States, as computed by the company, is shown in the following table:

TABLE 54.—PERCENTAGES OF NET EARNINGS TO NET PROCEEDS OF THE INTERNATIONAL HARVESTER CO. ON SALES IN THE UNITED STATES, BY SPECIFIED LINES, 1910 AND 1911.

Item.	Net proceeds.		Per cent of net earnings to net proceeds.	
	1910	1911	1910	1911
Grain machines.....	\$10,992,306.84	\$11,166,696.18	22.01	19.54
Grass machines.....	9,992,897.49	8,511,026.73	18.25	15.05
Corn machines.....	3,395,798.69	4,922,782.88	26.62	22.53
Tillage implements.....	1,927,159.71	2,014,516.75	23.87	17.17
Seeding machines.....	29,003.41	204,938.89	12.76	4.15
Engines and motors ¹	6,545,746.33	7,766,797.98	22.09	13.09
Manure spreaders and wagons.....	7,074,715.59	5,894,751.62	12.27	7.18
Cream separators.....	1,023,431.09	757,876.06	27.34	22.54
Miscellaneous machines, attachments, and repairs.....	5,715,433.78	5,574,767.67	37.40	20.20
Twine.....	7,615,630.28	7,250,799.22	² 1.84	12.53

¹ Motors include motor vehicles and tractors.

² The rate on twine for 1910 was exceptionally low, due to unusual circumstances.

According to the company's own statement its profit on grain machines in the United States in the years 1910 and 1911 averaged over 20 per cent on net proceeds of sales. In marked contrast to this, the profit on farm wagons and manure spreaders in this country were slightly less than 10 per cent on the net proceeds of sales, and that on twine but little above 7 per cent. In the year 1910 the profit shown for the twine business of the company in the United States was less than 2 per cent. This return was, however, exceptionally low. In the preceding year the company had made large purchases of fiber in Yucatan. The high prices of 1909 were not maintained, however, and as a result the company had to meet competition in 1910 based on lower costs of fiber, and even at the end of that year was obliged to write off \$250,000 from the cost value of fiber on hand.

The rate of profit on wagons is admittedly much lower than on manure spreaders, with which they are combined in the above table. This is, of course, suggested by the narrow margin for wagons between cost of manufacture and price shown on page 240.

RETURN ON INVESTMENT.—The following table, presenting figures furnished by the company itself, shows domestic trading profits compared with investment in the United States. The results shown depend on more or less arbitrary allocations of selling expense; a dif-

ferent distribution would modify the results here shown. The figures given below indicate only in a very broad way the actual relation to each other of the rate of net earnings in the different lines.

TABLE 55.—INTERNATIONAL HARVESTER CO.'S PERCENTAGE OF DOMESTIC TRADING PROFIT TO INVESTMENT IN THE UNITED STATES, BY SPECIFIED LINES, 1910 AND 1911, BASED ON COMPANY'S STATEMENTS.

Item.	Investment.		Per cent of profit.		
	1910	1911	1910	1911	Average.
Grain machines.....	\$15,692,137.47	\$16,277,273.99	15.4	13.4	14.4
Grass machines.....	15,693,134.98	13,917,028.51	11.6	9.2	10.5
Corn machines.....	3,603,590.17	6,674,034.00	25.1	16.6	19.6
Tillage implements.....	3,418,611.72	2,962,387.21	13.5	11.7	12.6
Seeding machines.....	55,838.19	329,599.34	6.6	2.6	3.2
Engines and motors ¹	9,678,848.50	10,029,131.56	14.9	10.1	12.5
Manure spreaders and wagons.....	11,591,256.43	10,933,570.30	7.5	3.9	5.7
Cream separators.....	1,401,361.30	1,235,340.86	20.0	13.8	17.1
Miscellaneous machines, attachments and repairs.....	10,407,356.65	10,774,488.02	20.5	10.5	15.4
Twine.....	10,169,695.57	9,092,874.59	* 1.4	10.0	5.4

¹ Motors include motor vehicles and tractors.

* The rate of profit in this year was exceptionally low, due to unusual circumstances.

The foregoing statement is based on the company's figures for net assets and net earnings, which give a lower average rate of profit than the revised statement of net assets and net earnings as computed by the Bureau. Consequently, the rates of profit on particular lines are lower than would result by using the Bureau's figures.

The above table may be accepted as showing that even on the basis of the company's own statements the rate of return on investment in the monopolistic lines is at least from two to three times as great as on some lines in which it meets active competition. In corn binders, in which business there is little effective competition, the rate shown by the table is over three times as great as on manure spreaders and wagons. In this connection it should be noted that as shown by the company's own statement the rate of return on the investment in manure spreaders and wagons fell to less than 4 per cent in 1911. The high rate of return shown on the engine and motor business is probably due in part to the novelty of these machines. However, the rate of return on investment in the engine and motor business in the United States fell from 15 per cent in 1910 to 10 per cent in 1911. This decline in the rate was apparently due to an aggressive sales policy on the part of the International Harvester Co. However, a declining rate of profit was characteristic of the business on all lines except twine. The International Harvester Co. lowered its domestic price on

binders by \$5 in the season of 1912, giving as its reason the decreased cost of materials. The above figures would indicate that competitive conditions, as well as decreased cost of materials, may have influenced the company in this reduction of price.

Section 11. Prices and profits in export trade.

PRICES IN UNITED STATES AND IN FOREIGN COUNTRIES.—Comparing the foreign business of the International Harvester Co. with the domestic business, there are comparatively few exceptions, apparently, to the statement that the prices to the retail dealer or to the farmer are higher abroad than in the domestic market. The difference between domestic and foreign prices is due largely to the fact that the business in foreign markets must bear a large expense for freight and generally for duty, while the selling expenses likewise are often high.

A comparison of domestic and foreign prices for certain harvesting machines is given below. It should be noted, however, that a much larger part of the foreign business than of the domestic is done with jobbers. This tends to lower the foreign price as compared with the domestic. Of course, the figures take no account of any differences between prices of machines to the farmer in the United States and in foreign countries due to variations in the expenses or in the profits of the retail dealer.

TABLE 56.—AVERAGE NET PRICES OF SPECIFIED LINES OF THE INTERNATIONAL HARVESTER CO. IN THE UNITED STATES AND IN FOREIGN COUNTRIES, EXCLUDING CANADA, IN 1910.¹

Item.	Domestic.	Foreign.
Orain binders, 5-foot, 6-foot, 7-foot.....	\$102.64	\$125.27
Reapers.....	53.83	68.28
Mowers.....	37.11	41.09
Rakes.....	18.17	21.71
Twine.....	.074	.083

¹ Prices in Canada also are higher than in the United States.

The average proceeds of sales given above include all sales of machines to dealers and jobbers (less discounts). In the United States the business done with jobbers is very small as compared with that in foreign countries. It should also be remembered, as just stated, that the prices for machines sold in foreign countries include heavy freight and duty charges, amounting, according to an average of these expenses on the monopolistic lines for 1910 and 1911, to over five times as much in proportion to sales as the freight paid on corresponding lines in the United States.

From the figures in the above table, it can be easily seen that the farmer in the United States enjoys a marked advantage over the farmers in foreign countries generally, even if the retailer's margin

were very much lower abroad, on an average, than in the United States. The foreign price shown by the table on grain binders is about 22 per cent greater than the domestic; on reapers, about 27 per cent; on mowers, about 11 per cent; on rakes, about 20 per cent; and on twine, about 12 per cent.

While the above table indicates that in general the advantage to the farmer in the United States is very considerable, it is not to be inferred from this that so great a contrast would be found in all cases if comparisons were made with particular countries. In some countries the International Harvester Co. meets very aggressive competition, and because of that competition it is compelled to lower its prices considerably. The areas of low prices are comparatively unimportant and have little effect on the average price.

Because of frequent reports that the International Harvester Co. has sold its machines at much lower prices abroad than in the United States, emphasis should be placed upon the fact that the Bureau's agents made an extensive investigation in Europe and found no noteworthy instances of what is usually termed "dumping" with respect to the International Harvester Co. In some instances sales below actual cost were found. These were apparently due, however, to peculiar conditions, such as the accumulation of stock that had deteriorated in value because of exposure or other circumstances, or to other conditions justifying the reductions made. In some cases it has been found that the International Harvester Co. realized a lower (net at factory) average price for some of its principal machines in particular foreign countries in certain years, as compared with the United States, but such prices were apparently due to aggressive competition, or to abnormally high selling expenses.

PROFIT ON SALES IN THE EXPORT TRADE.—The International Harvester Co. has claimed, however, that its percentage of profit on net proceeds of sales is greater in foreign countries than in the United States. Copies of the annual reports of its branch offices in different countries show that this statement is not correct for important machines in particular countries. Moreover, its own statement of profits by lines furnished to the Bureau shows that the ratio of profit to sales was less in 1911 on grass machines for the entire foreign trade, excluding Canada, than for the domestic trade. There were several other, though less important, instances. The difficulty of determining without careful investigation the reasonableness of the company's allocation of selling expense makes comparison of net profits by lines impracticable without extended study.

It does not appear probable that differences in allocation of selling expenses or miscellaneous earnings between the different countries would seriously affect these figures given by the company itself. The statement of the proportion of trading profit to net sale proceeds

given in the table below for the entire business in the United States and in foreign countries is probably reasonably accurate.

TABLE 57.—COMPARISON OF INTERNATIONAL HARVESTER CO.'S DOMESTIC NET SALE PROCEEDS AND TRADING PROFIT IN THE UNITED STATES AND IN FOREIGN COUNTRIES FOR THE YEARS 1910 AND 1911, ACCORDING TO THE COMPANY'S STATEMENT.

	Net sale proceeds. ¹	Trading profit.	
		Amount.	Per cent of sales.
United States:			
1910.....	\$55,225,924.03	\$10,359,975.78	18.8
1911.....	55,611,343.98	8,589,578.33	15.5
Foreign (including Canada):			
1910.....	30,510,365.46	6,705,969.77	22.0
1911.....	37,298,906.99	7,950,018.23	21.3

¹ Excluding freight and duty.

It will be seen from the above table that the rate of profit on total sales, according to the company's own statements, is somewhat larger abroad than in the United States. In 1910 the rate shown for foreign countries was 22 per cent, and that for the United States only 18.8 per cent. In 1911 the contrast was more striking, as the rate for foreign countries was 21.3 per cent, while that for the United States fell to 15.5 per cent.

It should be noted in this connection that the company has invested large sums in the erection and purchase of factories, both in Europe and Canada, within the last few years, and that up to the present time these investments have earned little, if any, net return. In addition to this it has been found necessary in the undeveloped sections of some countries, such as Siberia and Canada, in which the company now does a large amount of business, to extend much longer and larger credits than are now needed in the United States. The relation of trading profit to proceeds of sales is therefore no index to the rates of profit on total investment in the domestic and in the foreign business of the company.

Section 12. Movement of prices, 1903 to 1911.

As pointed out in section 10, the best test of the reasonableness of prices is found generally in the relation of profits to investment, because a high rate of profit is in general an indication of high prices relatively to cost of production. It does not hold true, however, that a statement of the course of profits is any certain indication of the trend of prices. Profits are, of course, influenced by various factors, such as changes in cost of production and selling

expense depending largely on quantity of production, prices of purchased materials, wages, volume of sales, changes in the value of inventories, etc. For instance, in 1908, when prices were generally advanced, particularly on the harvesting-machine lines, there was only a moderate increase in the rate of profit, namely, from 7.31 per cent in 1907 to 8.73 per cent in 1908. However, in 1909, with no further conspicuous change in prices, there was a very marked increase in profits, namely, to 13.43 per cent. Nevertheless, the price policy of the International Harvester Co. was a factor of great importance, and the higher prices charged for harvesting machines in the years 1908 to 1911, inclusive, contributed very largely to bring about the higher profits of those years as compared with earlier years.

For the purpose of indicating in some measure the character of the company's price policy, a brief discussion of the movement of prices for certain important classes of machines is therefore given. This discussion is limited to the course of prices in the United States, because these are of especial interest.

Owing to the numerous kinds of machines sold by the International Harvester Co., and especially to the variety in the sizes, etc., of particular kinds of machines, it is difficult to present concisely a complete and satisfactory view of its price policy. For some of its machines the International Harvester Co. furnished statements to the Bureau of the average annual prices for particular sizes, while for others it gave the average for all sizes. Obviously, if there were great variations in the proportions of different sizes sold from year to year, such annual averages would not be strictly comparable. Where, however, the different sizes which are grouped together do not vary much in price, such a grouping does not seriously affect the comparability of the average annual prices if only the broader changes of price policy are under examination and the exact differences from year to year are not sought.

The following table shows the average net proceeds (i. e. the average prices realized by the company after deduction of concessions or allowances made from the regular prices, but without deduction of freight) in the United States for most of the chief classes of machines sold by the International Harvester Co. from 1903 to 1911:¹

¹ Figures for 1912 not available.

TABLE 58.—AVERAGE NET PRICES IN THE UNITED STATES OF THE INTERNATIONAL HARVESTER CO. FOR SPECIFIED KINDS OF FARM MACHINERY, ETC., BY YEARS, 1903-1911.

[Deducting discounts but not freight.]

Machines, etc.	1903	1904	1905	1906	1907	1908	1909	1910	1911
Grain binders, 5, 6, and 7 foot..... ¹	\$98.42	\$97.73	\$97.67	\$95.79	\$96.34	\$102.65	\$102.49	\$102.64	\$102.39
Grain binders, 8-foot.....				109.49	³ 115.63	⁴ 122.70	122.50	122.98	123.74
Mowers ⁵	35.11	34.53	34.68	34.48	34.69	⁶ 37.21	37.10	37.11	37.06
Rakes ⁵	17.30	17.67	17.18	17.11	17.05	18.11	18.18	18.17	18.20
Tedders ⁵	29.65	29.12	28.67	28.72	28.22	30.95	30.00	29.74	29.77
Corn binders.....	96.29	94.25	94.33	93.19	94.89	100.02	99.65	100.19	101.28
Disk harrows ⁵			19.92	19.71	19.91	20.97	20.18	20.25	20.20
Wagons, two-horse ⁵					55.73	58.08	58.66	58.97	58.15
Manure spreaders ⁵			98.74	98.04	96.22	97.39	95.79	89.01	86.29
Cream separators ⁵			70.02	64.37	58.98	51.60	51.35	44.87	44.51
Binder twine, per pound ⁷.....	.1081	.1040	.0372	.1005	.0962	.0822	.0748	.0743	.0647

¹ Includes a number of 8-foot binders.² Prices of 5, 6 and 7 foot binders advanced \$7.50.³ Prices of 8-foot binders advanced \$5.⁴ Prices of 8-foot binders advanced \$10.⁵ All sizes.⁶ Prices of mowers generally advanced \$2.50.⁷ All kinds. The unusually large variations in the price of twine were chiefly due to changes in the price of fiber.

The above average prices are, as already stated, the net proceeds in the domestic market after deduction of any concessions or allowances made from the regular prices, which accounts in part for minor variations between one year and another. Another cause of variation as above indicated is found in the different proportions of machines of various sizes which differ more or less in price. There are also some general differences in prices according to the region of sale. For example, prices of binders in the Eastern States include freight, and in the Western States do not. Hence, variations in the proportions sold in different regions affect the average. Where marked variations in average prices occur, however, the principal reason is found in changes in the prices themselves. In the case of harvesting machines, for which list prices are established and generally maintained over wide regions of the country, the changes have been made in the form of definite advances. In the case of some of the new lines for which regular wholesale list prices are not made, and, consequently, not printed, but written in the contract, the changes shown are largely the result of a very irregular policy of price reduction, which is not uniform either for localities or for particular purchasers in the same locality.

Allowing for the various factors of uncertainty already pointed out, Table 58 nevertheless clearly indicates on its face a striking

difference in price policy between the old and highly monopolized lines and some of the newer lines in which the company encounters much more active competition. Thus, these average prices show that there has been a general and rather substantial advance in prices of harvesting machines, taking the period 1903-1911 as a whole. On the other hand, in the new lines in which the company admittedly encounters more active competition, these average proceeds do not indicate a uniform price policy. For two of these lines, namely, disk harrows and two-horse wagons, advances were made in 1908 which were similar in relative amount to those for harvesting machines (although for harrows prices declined again after 1908), while for two other new lines, namely, manure spreaders and cream separators, there were marked declines. Prices of binder twine likewise show a substantial reduction, due chiefly, however, to changes in the prices of fiber. In this branch of the business, it will be recalled, the company meets extensive competition, not only from ordinary competitors, but also from some State penitentiaries, which have a considerable output. Before conclusions are drawn from these average net proceeds, various circumstances affecting the price movements, particularly the relations of price to cost, should be considered.

Taking 5, 6, and 7 foot grain binders, it will be noted that the average net proceeds declined from \$98.42 in 1903, to \$95.79 in 1906.¹ In 1908, however, there was a decided advance, namely, to \$102.65 from \$96.34 in the previous year.

From 1908 to 1911, inclusive, the average annual net proceeds of these binders remained practically constant, varying only \$0.26. This increase in binder prices in 1908 was characteristic of harvesting machines in general. In this connection may be noted the following statement of the International Harvester Co. in its answer to the Government bill in equity in the suit now being tried:

They deny that the defendants have advanced the prices of harvesting implements in interstate commerce to the injury of the farmer or of the general public. On the contrary they aver that the prices of harvesting machinery have increased but slightly, although the International Harvester Company has greatly improved their quality, durability, and efficiency, and the materials and labor entering into their manufacture have increased in cost on the average fully twenty-five per cent.; that no increase was made in the prices of the harvesting machines manufactured by the International Harvester Company until 1908, and then the increase in such prices was only seven per cent.; and for 1912 the prices were reduced five per cent.

¹ It may be noted that the prices for 1903, 1904, and 1905 are not comparable, as they include an indefinite but comparatively small number of 8-foot grain binders: if these were eliminated, the average net proceeds, it is estimated, would be about \$95 instead of \$97.67 in 1905, and somewhat lower also in 1903 and 1904.

It is important to note that, according to the company's figures of the average cost of 5, 6, and 7 foot binders produced in the United States, the margins between these costs and domestic prices were considerably greater after the advance in prices than before. Thus, for the five years 1903 to 1907, inclusive, the average margin between price and cost was less than \$40.55, and for the four years 1908 to 1911, inclusive, the average margin was \$46.52, giving an increase in the average margin of \$5.97, or more. This figure, however, really understates the increase in the margin, for several reasons: First, in the figure of cost, export machines can not be separated, and these constituted a larger proportion of the sales in the later years as compared with the earlier years, with a corresponding enhancement of the average cost in the later years. If they could be excluded the margin in these later years would be higher. Second, because the average prices in 1903, 1904, and 1905 include some 8-foot grain binders, which, if they could be excluded, would result in lower average prices for those years, and consequently lower margins also in the earlier period. Third, because there was a change in the company's policy in 1908 and subsequent years in regard to selling attachments with binders. Thus, prior to 1908 transports were generally included with the binders without extra charge, while in 1908 and subsequent years additional payment was usually required. This resulted in an increase in the average price of binders and transports taken together of probably more than \$1.50 per machine. Similarly, there appear to have been in 1908 and thereafter fewer tongue trucks included gratis with the binders than in previous years. If account were taken of these facts, the average margin would be higher in the latter period.

Furthermore, in judging of the increase in margin shown above, it should be considered that this was in spite of the fact that the International Harvester Co.'s average domestic selling expense for machines was considerably higher for the period 1903 to 1907, inclusive, than for the period 1908 to 1911, inclusive, the ratios of selling expense to sales being 29.5 per cent and 20.7 per cent, respectively.

Comparatively few 8-foot grain binders were made before 1905. The average prices from 1906 to 1911 only are shown in the above table. For these machines a general advance of \$5 was made in 1907 from a nominal contract price generally fixed at \$115, and of \$10 additional in 1908. The average net proceeds shown in the above table, which are affected by the deductions for price concessions, etc., show an average price of \$109.49 in 1906, an advance to \$115.63 in 1907, and a further advance to \$122.70 in 1908. From 1908 to 1911, inclusive, the average net proceeds made a further gradual advance of \$1.04.

Next to binders, mowers are the most important kind of machines sold by the company. From 1903 to 1907, inclusive, the average annual net proceeds ranged from \$34.48 in 1906 to \$35.11 in 1903, giving a maximum difference of only \$0.63. In 1908 there was an advance in the list price of most mowers of \$2.50. A corresponding advance is found in the average annual net proceeds, which increased from \$34.69 in 1907 to \$37.21 in 1908. From 1908 to 1911, inclusive, the net proceeds of mowers showed an extreme variation of only \$0.15. This advance in prices resulted in a corresponding increase in the margin between costs and prices, namely, from a margin of \$14.17 in the five-year period 1903 to 1907 to a margin of \$17.24 in the four-year period 1908 to 1911. In this connection, also, should be considered the fact that there was a marked decline in the average selling expense for machines in the more recent period.

The situation as to rakes was practically the same as for mowers. From 1903 to 1907 the average annual net proceeds ranged from \$17.05 in 1907, to \$17.67 in 1904, and from 1908 to 1911 they showed a range from \$18.11 in the former year to \$18.20 in the latter. The increase in the margin between costs and prices was quite as marked for rakes as for mowers, namely, from \$5.58 for the five-year period 1903 to 1907 to \$7.13 for the four-year period 1908 to 1911.¹ Furthermore, as already noted, there was a decrease in selling expense in the latter period.

The price movement for tedders was similar to that for mowers and rakes, the average net proceeds advancing in 1908, and being higher in that year and the succeeding years than for previous years.

For corn binders the list prices have been the same as for 6-foot grain binders, and the movement of average annual net proceeds has been very similar to that for the 5, 6, and 7 foot grain binders. From 1903 to 1907 they ranged from \$93.19 in 1906 to \$96.29 in 1903; from 1908 to 1911 they ranged from \$99.65 in 1909 to \$101.28 in 1911. The margin between costs and prices increased from \$42.51 in the five-year period 1903 to 1907 to \$52.89 in the four-year period 1908 to 1911. The selling expense was lower in the latter period, as repeatedly stated.

When the new lines are considered, however, different and more variable tendencies appear.

Data for disk harrows are not available prior to 1905. In 1908 there was an advance in the price of \$1.12 over the average price for the three preceding years, but the average price in the three years after 1908 was only \$0.36 higher than for the three years preceding it. There are a good many sizes of disk harrows, and it is possible that more detailed data as to the proceeds for specific sizes would show

¹ Compare statement on p. 250, as to cost of export machines.

wider variations. Data are not available to make satisfactory comparisons of the margins between the prices and costs of disk harrows.

Average net proceeds for two-horse wagons are not available prior to 1907; in that year the average price was \$55.73, while in 1908 it advanced to \$58.08. From 1908 to 1911 the maximum variation was only \$0.89. In this case again, owing to the numerous sizes and specifications of two-horse wagons, it is quite possible that if the average net proceeds for particular kinds of two-horse wagons were available, the results of such a comparison might be somewhat different. The data available are insufficient to make a satisfactory comparison of the margins between costs and prices, but the indications are that the margin increased at first and then declined in 1911.

For manure spreaders the average annual net proceeds are available from 1905 on. The table shows an almost continuous decrease in the average net proceeds from year to year; they ranged from \$98.74 in 1905 to \$86.29 in 1911. There are several sizes of spreaders sold by the International Harvester Co., but most of them are of sizes which do not differ greatly in price. Actual reductions in the price of the same kind of spreader have been undoubtedly the chief factor in the decline in net proceeds which is shown above. In spite of the decline in prices the margin between prices and costs has increased on the whole in recent years. Thus for the three-year period 1905 to 1907 the average margin was only \$30.86, while for the four-year period 1908 to 1911 the average margin was \$36.48. The low margins in the earlier years were apparently due in part to the fact that the International Harvester Co. was developing a new line of machines and had high costs. However, it is noteworthy that in 1911 the margin dropped from \$35.21 to \$31.25, chiefly on account of price reductions.

A much more marked decline is shown in the average net proceeds of cream separators, which ranged from \$70.02 in 1905, the first year for which data are available, to \$44.51 in 1911. Several sizes of cream separators are made, and the very marked decline in average proceeds is probably only partly due to decreases in the prices of the same types of cream separators. Excluding the first year, in which the average cost was greater than the average price, as abnormal, a comparison of the years 1906 and 1907 with subsequent years shows, nevertheless, a slight increase in the margin in spite of very large reductions in the average price, namely, from \$21.65 for 1906 and 1907 to \$23.15 for the four years 1908 to 1911.

The most marked decrease in average net proceeds shown in the foregoing table is for binder twine, the average being \$0.1081 per pound in 1903 and only \$0.0647 per pound in 1911. The net proceeds of twine shown in the table are for all kinds of binder twine, but they cor-

respond very closely to the movement of prices for particular kinds, as appears from the following statement of the prices of various sorts as reported by the company.

TABLE 59.—AVERAGE WHOLESALE PRICES OF BINDER TWINE, IN CENTS PER POUND, AS REPORTED BY THE INTERNATIONAL HARVESTER CO., BY YEARS, 1902-1911.

Year.	Sisal.	Standard sisal.	Standard manila.	Manila.	Pure manila.
1902.....	11	11	12½	13½	15
1903.....	10½	10½	11½	12	13
1904.....	10½	10½	11½	12½	13½
1905.....	10	10	11	12	13½
1906.....	10	10	11	12	13
1907.....	9½	9½	.....	12½	14
1908.....	8½	8½	.....	11½	13
1909.....	7½	7½	.....	8½	10
1910.....	7½	7½	.....	8½	9
1911.....	6½	6½	.....	7½	8½

The grades which are used in the largest quantities are sisal and standard sisal, and the prices for these naturally coincide very closely with the average net proceeds for all kinds of twine which are given above. As repeatedly stated, the marked reductions in the prices of twine were chiefly due to changes in the prices of fiber. However, the margin between the cost of twine (which includes changes in fiber cost) and the net proceeds was higher in the five-year period 1903 to 1907 than in the four-year period 1908 to 1911; these margins were 1.30 cents and 1.10 cents, respectively. Moreover, there was an increase in the rate of selling expense for twine in the domestic market in the latter period, namely, from 2.5 per cent for the five-year period 1903 to 1907 to 3.4 per cent for the four-year period 1908 to 1911.

Another method of showing the changes in prices from year to year is to take the wholesale price for specific sizes of particular kinds of machines as shown in the contracts with the dealers. A representative figure for the prices of certain machines can be obtained in this way for certain harvesting machines—for example, binders, mowers, and corn binders. These machines are sold to the dealers on the basis of printed contracts which show the wholesale prices. These contracts are uniform for large sections of the country, and the prices shown on the contract are only occasionally changed in any considerable degree by special concessions. In respect to these machines, the method of quoting prices differs markedly from the method of quoting the prices of rakes and the various new lines which are classed as "sales" goods and not generally sold under a commission contract.

The following table shows the general contract wholesale prices for specified grain binders, mowers, and corn binders in the chief grain States of the West from 1903 to 1911:

TABLE 60.—CONTRACT LIST PRICES, F. O. B., CHICAGO, FOR TWO FALL PAYMENTS OF SPECIFIED DEERING HARVESTING MACHINES, BY YEARS, 1903-1911.

Machine.	1903	1904	1905	1906	1907	1908	1909	1910	1911
Grain binder:									
6-foot.....	\$100.00	\$100.00	\$100.00	\$100.00	\$100.00	\$107.50	\$107.50	\$107.50	\$107.50
7-foot.....	103.00	103.00	103.00	103.00	103.00	110.50	110.50	110.50	110.50
8-foot.....	115.00	115.00	115.00	115.00	120.00	130.00	130.00	130.00	130.00
Mower:									
5-foot regular.....	36.00	36.00	36.00	36.00	36.00	38.50	38.50	38.50	38.50
5-foot vertical.....	37.00	37.00	37.00	37.00	37.00	39.50	39.50	39.50	39.50
6-foot.....	39.00	39.00	39.00	39.00	39.00	42.00	42.00	42.00	42.00
Corn binder.....	100.00	100.00	100.00	100.00	100.00	107.50	107.50	107.50	107.50

An inspection of the foregoing table shows that for 6 and 7 foot grain binders the only change in the regular contract prices was in 1908, when they were advanced \$7.50. This advance does not take any account, of course, of the fact that the company also began to require payment, generally, for attachments which previously were usually thrown in gratis (see p. 250). The 8-foot grain binders, on the other hand, were advanced \$5 in 1907 and \$10 additional in 1908, giving a total advance during this period of \$15.

The changes in the prices of mowers were parallel to those for 6 and 7 foot grain binders, only one advance being made, namely, \$2.50 for the 5-foot mowers and \$3 for the 6-foot mowers.

The list price of corn binders was the same as that of 6-foot grain binders in each year, advancing \$7.50 in 1908.

The contract prices of harvesting machines shown above, while given specifically for Deering brands, were also applicable to the McCormick brands of harvesting machines of the corresponding kinds and sizes.

Table 60 therefore brings out very clearly the policy of the company with respect to these highly monopolized harvesting-machine lines for the period covered. In the case of every one of the machines listed, it will be seen, there was an advance in the contract list price, and in most cases a substantial advance. In this connection it should be repeated that the International Harvester Co. made a general reduction in the prices of harvesting machines in 1912. This reduction, it should be noted, was made subsequent to preparations by the Government for filing a bill against the company in case a voluntary dissolution was not agreed upon. This price reduction amounted to

\$5 for grain binders and to proportional amounts for certain other harvesting machines. The reason given by the company for this reduction was that the cost of production had decreased.

It is not practicable to show the changes in the list prices of the new lines of the International Harvester Co. in the same manner. This is due to the fact, already noted, that the contracts are not made on the basis of printed list prices, but, instead, the prices are entered in the blanks provided for the purpose, and the prices so entered vary considerably, not only in different localities, but also for different dealers in the same general locality.

While this discussion of prices is by no means complete, it is obvious that it tends to sustain the point repeatedly made in this report, namely, that the International Harvester Co. has taken advantage of its monopolistic position in harvesting-machine lines to increase both prices and margins, whereas in several lines where it meets keen competition the company has reduced prices, although in some cases this has not involved a reduction in the margin between cost and price.

CHAPTER VI.

PRODUCTIVE EFFICIENCY AND FINANCIAL RESOURCES.

Section 1. Introductory.

Among the chief sources of power of the International Harvester Co. are its productive efficiency and large financial resources.

Its productive efficiency is found especially in its low manufacturing costs, which are chiefly due to its large volume of output. This advantage of large-scale production is most conspicuous with respect to the two largest plants which were doing business on a scale equally large prior to the original combination.

Its large financial resources and great volume of business enable it to maintain an elaborate selling organization and to grant unusually long terms of credit. This advantage was derived to a large extent from the original act of combination which brought together the business of nearly all the large harvesting-machine concerns, together with their financial resources. Furthermore, by uniting with them other powerful financial interests the combination was enabled to expand its operations over a very large part of the implement industry.

Section 2. Cost of production.

One of the chief elements of efficiency in manufacturing industries is found in the cost of production, and it is one which is, in many cases at least, most easily measured. Where goods of a simple and uniform character are involved, and where the business is practically confined to production alone as distinguished from production and distribution, cost is generally the principal test of efficiency. On the other hand, quality may be equally or even more significant than cost, and unquestionably this is a very important factor in the farm-machinery industry. Where distribution, as well as manufacturing, is conducted by the producer, efficiency often depends as much on selling as on manufacturing. Efficiency in selling, however, is much more difficult to measure than efficiency in production, and a successful selling organization may have a relatively high cost per unit, yet be justified commercially by the fact that it procures a large volume of business which in turn may make possible a low manufacturing cost. In the case of a monopolistic business, it may be one of the chief instruments of maintaining control of the trade.

IMPORTANCE OF VOLUME OF BUSINESS.—The economy of large-scale production of farm machinery, and particularly the production of the more elaborate machines, such as binders, has already been referred to. After the International Harvester Co. was formed there was no increase in productive efficiency for harvesting machines on account of volume of output alone, because the largest plants of the combination, the McCormick and Deering factories, continued to operate on a no larger scale than before. As compared with the independent concerns, however, both of these plants were greatly superior in volume of output. Thus, for the McCormick plant the production of binders from 1903 to 1911 ranged from 29,643 in 1904 to 71,070 in 1911, and for mowers from 81,807 in 1904 to 131,411 in 1908. Similarly for the Deering plant, the production of binders ranged from 32,701 in 1904 to 62,884 in 1911, and for mowers from 70,430 in 1906 to 106,438 in 1908. None of the independent concerns approached these figures of output. In the production of binders, for example, the largest output of any independent concern in any year from 1903 to 1911 was less than 12 per cent of the output of the McCormick plant for the same year, and similarly for mowers the largest output of any independent concern in any year from 1903 to 1911 was less than 16 per cent of the smallest output of the McCormick plant. This factor of volume of output, other things being equal, has an important influence on the cost of production.

A good illustration of the influence of this factor is found in an estimate made by the International Harvester Co. in 1908 with respect to the advantage of transferring a part of its production of harvesting machines from the McCormick plant in Chicago to the Hamilton plant of its Canadian subsidiary (International Harvester Co. of Canada). According to this statement the transfer of the manufacture of the requirements of the trade with France in binders and mowers (namely, 5,150 and 20,800, respectively) from Chicago to Hamilton would increase the cost at the Hamilton plant for these products from about \$1,113,000 to about \$2,130,000, or about 90 per cent, based on previous average costs, but it was estimated that the increased volume of production thereby attained would reduce the total Hamilton factory cost by about \$148,000, or by 6.9 per cent. The Hamilton plant in 1907 produced, among other machines, 10,656 binders and 13,828 mowers.

If such an increase in output for a comparatively small plant is sufficient to reduce costs by 6.9 per cent, it is probable that if the output were multiplied several times a much larger reduction in cost might be expected.

The advantage of the International Harvester Co. in the cost of production of harvesting machines, as stated above, was an advan-

tage which, so far as scale of operations alone is concerned, came with the acquisition of certain large plants, particularly the McCormick and Deering plants, and which was not created by the combination itself. The volume of production of binders and mowers at the McCormick plant since it was acquired by the International Harvester Co. has never equaled, in fact, the greatest volume of production in the years before the merger. While the costs of production at this plant before the merger were also generally lower than since that time, it is not proper to make a comparison between them, because the costs of raw materials and labor have both increased considerably, and very large increases in this respect occurred just about the time of the merger; moreover, the methods of keeping costs in these two periods were not the same.

When the International Harvester Co. went into the production of new lines a few years after its organization, its large financial resources enabled it to develop them on a considerable scale, and consequently, in such cases also it was able to reap considerable advantage from large volume of output. Nevertheless, it has not obtained in any of these new lines such a large proportion of the business as in the harvesting machine lines. Probably its greatest relative strength is in manure spreaders, in which its output at the maximum was several times larger than the maximum of its largest competitor. In disk harrows also it obtained a much larger output than any single competitor. In farm wagons only one of its competitors approaches it in volume of output, although when it entered this business in 1905 there was one concern with a production more than three times as great.

In comparing the costs of production of the International Harvester Co. with those of independents, therefore, this fact of the greater volume of output of the International Harvester Co. should be kept in mind, as it is undoubtedly one of its chief advantages.

COST OF GRAIN BINDERS.—The most important machines manufactured by the International Harvester Co. are the grain machines, including grain binders, reapers, headers, etc. Of these, the grain binder is by far the most important in number, although in cost it comes between the header and the reaper. The grain binder, therefore, demands particular consideration. Grain binders are made in several sizes, distinguished by the length of the cutter bar, namely, 5, 6, 7, and 8 foot machines.

The chief element in the cost of a binder is the material used, the other important items being labor and factory "burden" expense. The Bureau did not go into the details of these costs for recent years, the conditions being substantially similar, but the following figures for one of the larger plants for 1907 for specific sizes and types of binder will show the chief elements of cost and the

characteristic differences for some of the different kinds and sizes of binders made at this plant:

TABLE 61.—COMPARISON OF COSTS OF BINDERS AT ONE OF THE LARGER PLANTS OF THE INTERNATIONAL HARVESTER CO. IN 1907, SHOWING CHIEF ELEMENTS OF COST FOR SPECIFIED FOREIGN AND DOMESTIC MACHINES.¹

Machines.	Number.	Cost.				
		Material.	Labor.	Burden.	Experi- mental.	Total.
Domestic N. L. H. O. E.: ¹						
Harvester, less carrier—						
5-foot.....	417	\$38.06	\$9.87	\$5.77	\$0.04	\$53.74
6-foot.....	8,520	38.95	9.98	5.84	.05	54.82
7-foot.....	7,424	40.47	10.31	6.04	.05	56.87
8-foot.....	8,321	45.40	11.42	6.68	.06	63.56
Foreign N. L. H. O. E.: ²						
Harvester, less carrier—						
5-foot.....	1,764	42.92	11.85	6.94	.06	61.77
6-foot.....	922	43.82	11.96	7.00	.06	62.84
7-foot.....	182	45.34	12.30	7.20	.05	64.89
8-foot.....	200	50.26	13.41	7.85	.06	71.58

¹ These factory costs do not include general and miscellaneous expenses, nor a very large item of selling expense.

² New left-band, open elevator.

An examination of the foregoing table shows that for these binders (which are typical of binder costs at that plant as a whole) the materials in all cases form about 70 per cent of the total cost, labor about 19 per cent, factory burden 11 per cent. The amount of experimental expense chargeable to each machine was trifling.

The total costs of the 5, 6, and 7 foot binders show a maximum difference of \$3.13 for the domestic machines, and \$3.12 for the foreign machines. The 8-foot machines, however, cost \$6.69 more than the 7-foot both for the domestic and the foreign.

Comparing domestic and foreign machines, the cost of the former was invariably lower; the difference was about \$8 in 1907. This is chiefly due to differences in cost of packing the machines for shipment.

The International Harvester Co. in its statements of average costs often combines the 5, 6, and 7 foot binders in one group, and gives the cost of the 8-foot size separately. This is because the first two types generally sell for the same price in a given market, while the 7-foot size is only a little higher. The 8-foot size, on the other hand, sells for a considerably higher price, but a part of this difference in price is due to the fact that tongue trucks are included in the price of the 8-foot machine.

Coming now to the general average costs, the figures for the International Harvester Co. may be compared by plants, which show

decided differences therein. These are shown in the following table distinguishing the 8-foot binders from the other three sizes, the plants being designated by letters:

TABLE 62.—AVERAGE FACTORY COST¹ OF GRAIN BINDERS AT DIFFERENT PLANTS OF THE INTERNATIONAL HARVESTER CO. IN 1911.

Plant.	5, 6, and 7 foot binders.	8-foot binders.
A.....	\$56.12	\$60.41
B.....	53.48	57.29
C.....	74.58	82.77
D.....	65.51	71.44
E.....	59.53	67.52

¹ These factory costs do not include general and miscellaneous expenses, nor a very large item of selling expense.

Some of the differences in cost are due to differences in the construction of the machines and the manner in which they are packed for shipment, but the main reason is found in the efficiency of the different plants resulting largely from the differences in volume of output. The Hamilton plant, for example, produces only McCormick and Deering models, but its costs per machine are higher than those of the McCormick and Deering plants on account of its smaller output. The plant which has by far the highest costs is also the one with the smallest volume of production.

Taking all the sizes of binders together, the factory costs at the domestic plants showed the following averages for the years 1910 and 1911 combined:

TABLE 63.—AVERAGE FACTORY COST¹ OF ALL GRAIN BINDERS AT DIFFERENT DOMESTIC PLANTS OF THE INTERNATIONAL HARVESTER CO. FOR THE YEARS 1910 AND 1911 COMBINED.

Plant.	Average cost.	Plant.	Average cost.
A.....	\$56.30	D.....	\$64.94
B.....	54.11		
C.....	73.78	Average.....	56.32

¹ These factory costs do not include general and miscellaneous expenses, nor a very large item of selling expense.

The average costs for all binders show about the same relation for the different plants as the average cost for either the 5, 6, and 7 foot or the 8-foot machines. The smaller sizes greatly preponderate, however, and practically control the relations of average cost.

The binder business of the independent plants of the United States is substantially of the same character as that of the International

Harvester Co., although they make a smaller proportion on the average of the 8-foot machines. For the purposes of a rough comparison of cost, therefore, it is sufficient to take the average cost of all binders for the International Harvester Co. and the independent companies. There are also differences, of course, in the construction of the machines, which affect the costs of production, but the grain binders of the same size, whether for the International Harvester Co. or for the independents, ordinarily sell for about the same price in the same market in the United States and are substantially similar machines.

The Bureau obtained from all the important independent binder makers statements as to their factory costs in 1910 and 1911. In this connection it obtained also the amount of general and miscellaneous expense other than selling expense. On account of differences in methods of making up factory cost and in allocating parts of general expense to factory cost, it probably gives a fairer comparison of cost to group all items of general and miscellaneous expense with factory cost in making comparison between different companies. For this purpose such general and miscellaneous expenses may be prorated over total factory cost.

In this connection it should be noted that the International Harvester Co., in making up its costs by machines, charges all the materials furnished by its subsidiary companies; for example, foundry iron and steel bars from the Wisconsin Steel Co., at the prevailing market prices, so that in this respect its costs stand on the same basis as the costs of independent companies. The relation of this feature of the International Harvester Co.'s business to efficiency will be considered later. (See p. 267.)

A comparison of the average costs of binders for both the International Harvester Co. and the independent binder manufacturers reporting for the two years 1910 and 1911 combined is shown in the following table:

TABLE 64.—COMPARISON OF THE AVERAGE COSTS¹ OF BINDERS FOR THE INTERNATIONAL HARVESTER CO. AND FOR THE INDEPENDENT MANUFACTURERS REPORTING, FOR THE YEARS 1910 AND 1911 COMBINED.

[This table is intended to afford simply a broad and not a precise measure of differences in cost.]

Item.	International Harvester Co. ²	Independents.
Factory cost.....	\$56.32	\$70.83
General and miscellaneous expense.....	2.25	5.35
Total.....	58.57	76.18

¹ These costs do not include a very large item of selling expense.

² Includes domestic plants only.

The average factory cost of binders for the International Harvester Co. was \$56.32, as compared with \$70.83 for the independents. In only two cases out of four was the factory cost of an independent distinctly below the highest factory cost of the International Harvester Co., and in one case it was decidedly above it. In each case the output of the independent plants was decidedly smaller than the smallest output of any International Harvester Co. plant, except one. This fact largely explains their higher costs. Prorating the general and miscellaneous expense over total factory costs, the costs of the independent plants are relatively increased, the amount per binder being more than twice as high for the independents as for the International Harvester Co. This may be partly due, as already intimated, to differences in the methods of cost keeping, but undoubtedly is also due in part to the small average output of the independent plants.

Taking the sum of the factory costs and the general and miscellaneous expense, the average cost of the International Harvester Co. was \$58.57, and that of the independents, \$76.18. While this difference appears very large, it is not any greater than the difference between the costs of International Harvester Co. plants themselves.

The real significance of this difference in the average cost of binders for the International Harvester Co. and for the independents can not be properly appreciated without also taking into consideration the question of selling expense. This subject will be discussed in more detail later; it is sufficient here to call attention to the fact that the percentage of selling expense of the International Harvester Co. for its harvesting machines is considerably higher than that of the independents. Consequently, although these binders are sold at substantially the same prices, the differences in profit per machine can not be computed from the foregoing differences in cost, although the margin of profit of the independents is on the average much lower than that of the International Harvester Co.

The foregoing comparison of cost of binders, although it is based on data which are probably not strictly comparable in points of detail, is regarded by the Bureau as sufficiently accurate, at least, to establish the general relations of cost. In other words, the average costs, if computed on exactly the same scheme of cost accounting, might increase or decrease the differences shown in the above table by an appreciable amount per binder; nevertheless the general result would be substantially the same.

It is certain, therefore, that the International Harvester Co. enjoys a very marked advantage with respect to the cost of production of binders, and considering the great importance of this machine in the farm-machinery trade this undoubtedly constitutes one of the chief sources of its power.

COSTS OF MOWERS AND RAKES.—The costs of grass-harvesting machines are best illustrated by the costs of mowers and rakes, the mowers being especially important. It is not necessary to discuss these costs in such detail as for binders. While there are different sizes of mowers and rakes, the variations in cost are less important for the chief classes of these machines than for binders. It will be sufficient, therefore, to show, in the first place, the difference in total factory cost for all sizes of mowers and rakes for the various domestic plants of the International Harvester Co.; these data are shown in the following table:

TABLE 65.—AVERAGE FACTORY COST¹ OF ALL MOWERS AND RAKES AT DIFFERENT DOMESTIC PLANTS OF THE INTERNATIONAL HARVESTER CO., FOR THE YEARS 1910 AND 1911 COMBINED.

Plant.	Mowers.	Rakes.	Plant.	Mowers.	Rakes.
A.....	\$18.78	\$10.42	D.....	\$24.09	\$11.44
B.....	19.96	10.65	Average.....	20.09	10.84
C.....	27.35	12.87			

¹ These factory costs do not include general and miscellaneous expenses, nor a very large item of selling expense.

As in the case of binders, some of the differences in cost of mowers and rakes at different plants, shown in the above table, are due to variations in the construction of the machines and the manner in which they are packed for shipment, as well as to variations in the relative number of the different sizes. The principal cause of these differences in cost, however, is found in the differences in volume of production.

The business of the independent plants here under consideration in respect to mowers and rakes is, on the whole, substantially similar to that of the International Harvester Co. Certain of them produce a comparatively large number of one-horse mowers, which tends to make their average cost somewhat lower than it would otherwise be, and there are other differences of a similar character. While the total business of these independent companies in mowers and rakes is, therefore, not exactly of the same character as that of the International Harvester Co., the differences are not sufficiently important to invalidate drawing broad conclusions from the figures shown.

The Bureau obtained data as to the costs of mowers and rakes in 1910 and 1911 from a greater number of companies than for binders, because there are more independent manufacturers of importance in these two lines. These manufacturers included all the independent binder manufacturers, and also one other important group, namely, certain large full-line concerns which made mowers and rakes, but

not binders. The comparison of these costs with those of the International Harvester Co. is shown in the following table:

TABLE 66.—COMPARISON OF THE AVERAGE COSTS¹ OF MOWERS AND RAKES FOR THE INTERNATIONAL HARVESTER CO. AND THE INDEPENDENT MANUFACTURERS REPORTING, FOR THE YEARS 1910 AND 1911 COMBINED.

[This table is intended to afford simply a broad and not a precise measure of differences in cost.]

Item.	Mowers.		Rakes.	
	International Harvester Co. ²	Independents.	International Harvester Co. ²	Independents.
Factory cost.....	\$20.09	\$23.27	\$10.84	\$12.47
General and miscellaneous expense.....	.80	1.71	.43	.90
Total.....	20.89	24.98	11.27	13.37

¹ These costs do not include a very large item of selling expense. .

² Includes domestic plants only.

The average factory cost of mowers for the International Harvester Co. was \$20.09, as compared with \$23.27 for the independents. The factory cost for each of the independents, however, was lower than the cost of the International Harvester Co. at the plant that had the highest cost, while all but two of them had lower factory costs than the next highest plant cost of the International Harvester Co. Some of the independents had larger outputs than the smallest output of the International Harvester Co. plants, but most of them had smaller outputs. None of the independents, however, had such low costs as the costs of the International Harvester Co. at its McCormick and Deering plants, and their production in every case was very small in comparison.

The average factory costs of rakes for the International Harvester Co. was \$10.84 as compared with \$12.47 for the independents. All of the independents except two had lower costs for rakes than the highest plant cost of the International Harvester Co., and for two of them the costs were about the same as at the International Harvester Co. plant having the second highest cost. In only one case, however, did an independent plant have a larger output than the International Harvester Co. plant having the smallest output, and none of them equaled in output the next smallest rake plant of the International Harvester Co. The lowest factory cost of the independent rake plants was much nearer the lowest factory cost of the International Harvester Co. than for either binders or mowers. In rakes, apparently, the advantage of the International Harvester Co. in production is much less than for binders and less also than for mowers.

Prorating general and miscellaneous expense over total factory costs, the relative costs of the International Harvester Co. and the independents remain practically unchanged, although the independents had on the average a higher proportionate expense on this account. The reasons for this difference, as stated in connection with the discussion of the costs of binders, is probably chiefly due to volume of output.

Taking the sum of the factory costs and general and miscellaneous expense, the average cost of the International Harvester Co. for mowers was \$20.89, as compared with \$24.98 for the independents, while for rakes these costs were \$11.27 and \$13.37, respectively. For mowers, these differences were not so great, however, as the differences between the different plants of the International Harvester Co., while for rakes they were nearly the same.

In order properly to appreciate the significance of these differences in cost, it is necessary to consider the selling expense also (see p. 275), which averages higher for the International Harvester Co. than for most of the independent mower and rake producers. While the margin of profit for the International Harvester Co. is higher than for the independents, it is not as much higher as the figures of cost might appear to indicate.

Finally, as was stated in connection with the comparison of binder costs, the Bureau does not present the cost figures reported by the International Harvester Co. and the independent companies, shown above, with the idea that they are absolutely comparable from a cost-keeping standpoint, inasmuch as different companies naturally have somewhat different methods of keeping their costs. On the other hand, from a broad point of view, and for all the purposes which are essential in this connection, these comparisons are regarded as showing the significant relation of cost, namely, that the International Harvester Co. has a distinct advantage in cost over the independent companies on an average.

COST OF OTHER MACHINES—NEW LINES.—The chief new lines in the manufacture of which the International Harvester Co. is engaged are harrows, manure spreaders, farm wagons, gasoline engines, tractors, and cream separators. Certain comparisons of its cost with those of independents are made below for disk harrows, manure spreaders, and two-horse farm wagons, considerable cost data having been secured by the Bureau from independent manufacturers of these machines.

In these new lines the domestic production of the International Harvester Co. is generally confined to one or two plants. The particular independent companies whose costs of production in these lines are compared with the International Harvester Co. were of

two distinct kinds, namely, certain large concerns, including some full-line companies, and certain small companies making only a few lines, and sometimes only one line.

Manure spreaders.—These machines are made in several sizes, and while the prices of the same makes do not differ very greatly for the sizes most commonly sold, there are apparently considerable differences in the construction and quality of the goods. The spreaders made by the independent companies reporting to the Bureau, however, all appear to be machines of good quality and reputation in the trade. The average factory cost of the International Harvester Co. was \$54.37 for the two years 1910 and 1911 combined, or, adding the prorated general and miscellaneous expense, it was \$56.54. The costs of the independent companies showed a wide variation, some being distinctly above those of the International Harvester Co., and others below it in an even greater degree.

The average was a little higher than that of the International Harvester Co., but the Bureau does not regard this figure as significant. In respect to manure spreaders, therefore, the Bureau does not attempt to make any conclusion with regard to the relative advantages in cost of manufacture.

Disk harrows.—These implements are made, of course, in many sizes, and the differences in cost for different sizes are relatively large. Most of the harrows made, however, are of small or medium sizes, and for these different sizes the differences in cost are not so great. There are, however, considerable differences in the cost on account of construction and quality. While many implement companies keep their cost accounts in such a manner as to make comparisons difficult, this appears to be especially true for the independent companies reporting to the Bureau the costs of disk harrows.

The average factory cost of the International Harvester Co. was \$13.02, or, prorating and adding general and miscellaneous expense, it was \$13.54. The independent companies reporting the costs of all their disk harrows showed an average cost of \$14.64, or, prorating and adding general and miscellaneous expense, \$15.48. For most of these independent companies the factory costs were very nearly the same, and only one of them was lower than the International Harvester Co. Certain other companies reported only the cost of the principal size sold, but these are not included in the comparison. While the International Harvester Co., therefore, in the case of disk harrows, appears to have had some advantage in cost over independent producers, the difference was not very great, and it is a question whether the data are sufficiently satisfactory to make a positive conclusion therefrom.

Two-horse wagons.—Considerable information was also obtained as to the costs of two-horse farm wagons of independent companies, but the data generally were not very satisfactory in form. Moreover, differences in construction and quality of two-horse wagons would necessitate a detailed investigation in order to make proper comparisons. The average cost of the International Harvester Co. for two-horse wagons in 1910 and 1911 combined was \$46.32, and prorating and adding general and miscellaneous expense, \$48.17. The costs of the independent companies reporting were in some cases considerably higher than this, and in some cases a little lower. The average was a little higher, but it is not necessary to give the exact figure, as it is probably not comparable with that of the International Harvester Co., for the reasons above stated. So far as cost of production is concerned, therefore, the data are insufficient to show whether the International Harvester Co. possesses an advantage or not.

GENERAL POSITION OF THE INTERNATIONAL HARVESTER CO. WITH RESPECT TO COST OF PRODUCTION.—As repeatedly stated, reliance should not be placed upon the exact differences in cost which have been shown above, because the factory costs have been taken in some cases in the form in which the companies kept them, and perfect uniformity in the basis does not, of course, exist. However, the Bureau took pains in connection with this matter to define what was meant by factory cost, and in some cases the statements of cost, as kept by the companies, were amended to make them comparable. In some of the cases the companies reporting made their statements in considerable detail, while in others again the agents of the Bureau went over the question with the companies' accountants in order that the data might be as accurate as practicable.

Where the differences shown in the average cost of the International Harvester Co. and the independents are comparatively small no special importance should be attached to them, but where they are of a marked character they correspond to a real productive superiority on the part of the International Harvester Co. The striking advantage it has with respect to the cost of production of binders, taken in connection with the great importance of this machine in the farm-implement trade, is undoubtedly one of its chief elements of power.

IMPORTANCE OF INTEGRATION IN COST OF PRODUCTION OF THE INTERNATIONAL HARVESTER CO.—From the beginning an important feature in the organization of the International Harvester Co. was the inclusion with the implement factories of property in various natural resources, such as ore, coal and timber, and also plants for the manufacture of iron and steel. This linking together of the production of

the chief raw materials of the implement industry (namely, iron, steel, and lumber) with the manufacture of the implements themselves is now commonly called "integration."

The advantages of integration generally are twofold—first, by expanding the investment and scope of operations to produce materials directly instead of purchasing them and thus save the payment of profits to other producers; second, by providing for the needs of the business directly, to insure more suitable quality and to make sure of getting the materials as needed. Such expansion of investment and productive activity normally calls for a corresponding increase in profit, and it does not necessarily follow that the savings made in producing the final product will compensate for the increased investment and business risk. This is apt to be the case, however, wherever the raw materials are likely to advance steadily in value on account of monopolistic concentration of ownership or through combinations among the producers to artificially advance the price. With respect to the sale of iron ore and steel products throughout the period here under consideration (1903 to 1911), the conditions in the United States were such that there were undoubtedly advantages in the possession of raw materials and in the direct manufacture of intermediate products.

Even under these circumstances, however, it is important to consider whether the quantity of such material required is sufficiently large to justify investment on a scale which will make economical operations possible.

The principal investment of this kind by the International Harvester Co. was in ore and coal mines and in iron and steel works. These were placed under the control of a subsidiary corporation, the Wisconsin Steel Co. (See p. 148.) In order to manufacture iron and steel economically, however, the Wisconsin Steel Co. has developed a plant which has a much greater capacity than is needed for the requirements of the implement factories of the International Harvester Co. Consequently, a large part of its product is sold. For the years 1910 and 1911 the proportion of its sales to outsiders was about 42 per cent and 33.4 per cent, respectively, of the total. Hence, the Wisconsin Steel Co. is something more than a link in a scheme of integration. On the other hand, technical conditions make it necessary for the International Harvester Co. to buy a part of its requirement of steel bars.

As already stated, the International Harvester Co. buys its iron and steel from the Wisconsin Steel Co. at market prices, and its factory cost of production of machines is based on these market prices, which include an element of profit accruing to the organization as a whole. The amount of such intercompany profit for the two years 1910 and 1911 (the years for which the costs have been shown above),

and the total cost of production at the implement factories for the same periods, were as follows:

TABLE 67.—RELATION OF INTERCOMPANY PROFIT OF THE WISCONSIN STEEL CO. TO THE COST OF PRODUCTION OF FARM MACHINERY BY THE INTERNATIONAL HARVESTER CO. IN 1910 AND 1911.

Item.	1910	1911
Total factory cost at implement plants (excluding twine).....	\$39,948,031.61	\$49,363,041.05
Total intercompany profit of Wisconsin Steel Co. ¹	\$ 1,715,292.84	1,649,525.35
Net factory cost at implement plants.....	38,232,738.67	47,713,515.70

¹ Deducting miscellaneous losses in proportion to cost of sales.

² Not deducting proportion of intercompany interest of \$366,930.18 attributable to intercompany business. No interest was charged in 1911.

From these data it appears that the net cost of implements, as a whole, would be appreciably lower than the factory cost if deduction were made of these intercompany profits, namely, 4.29 per cent lower in 1910 and 3.34 per cent in 1911. A part of the intercompany profit, however, is a normal return on the additional capital invested in the iron and steel business.

Whether the International Harvester Co. has a great advantage over other producers of agricultural implements through this integration with the iron and steel industry, should be tested on the basis of the profits on investment of the Wisconsin Steel Co.

According to the accounts of the Wisconsin Steel Co. the net assets at the end of 1910 amounted to \$16,441,427.69, and at the end of 1911 to \$16,659,511.42. According to the Bureau's revision, comprising changes in the valuations of these properties (chiefly in ore) at the time of acquisition, together with changes in the reserve for ore extinguishment, the net assets of the company (including in assets money loaned by the International Harvester Co.) were \$9,497,719.13 at the end of 1910 and \$9,877,383.48 at the end of 1911. The net earnings of the Wisconsin Steel Co., according to its own accounts (without deduction of interest on loans of about \$11,000,000 from the International Harvester Co.), were \$2,444,859.95 in 1910 and \$2,218,083.73 in 1911 (in which year no interest was paid on these loans). According to the Bureau's revision of the net earnings (which consisted in restoring excessive ore extinguishment to earnings), they were, for 1910, \$2,601,638.14 (again including interest on the loans from the International Harvester Co.), and \$2,379,664.34 for 1911 (in which year no interest was paid on the loans above referred to). The rates of profit on the net investment at the end of the year were, for 1910 and 1911, 14.9 per cent and 13.3 per cent, respectively, according to

the company's accounts, and 27.4 per cent and 24.1 per cent, respectively, according to the Bureau's revision.

These rates of profit shown by the Bureau were extraordinarily large, even for the iron and steel industry, and hence this feature of integration in the International Harvester Co. is a great element of strength.

The integration of the International Harvester Co. with respect to the lumber industry may be considered in a similar way. The timber and sawmill properties of the International Harvester Co., as shown above (see p. 148), are vested in the Wisconsin Lumber Co., a subsidiary company. Like the Wisconsin Steel Co., this company sells a large part of its product to outside interests, while the material it sells to the implement factories of the International Harvester Co. is transferred at market prices. It is not necessary to enter into a detailed discussion of this investment, however, because, as stated above, the principal test of any advantage from such a connection is found in the profit earned by the subsidiary company under such circumstances, and the Wisconsin Lumber Co. practically makes no profits. Thus, according to the company's own statements, it showed a loss in 1910 of \$7,018.19 and in 1911 of \$4,857.60. While this loss, in the opinion of the Bureau, would not exist if the company did not charge an excessive extinguishment on timber cut (taking, of course, the Bureau's estimate of the original valuation of the investment in the timber), yet, even in that case the profits which would result would be very small in amount and would furnish a very low rate of profit on the real investment. Hence, in respect to its connection with the Wisconsin Lumber Co., there is no evidence of any advantage to the International Harvester Co.

Section 3. Selling organization and selling expense.

A brief mention of the elaborate methods used in selling agricultural implements has been already made (p. 55), and a more detailed description of the selling organization of the International Harvester Co. will be given in the following chapter. The purpose of the present discussion is not to describe this selling organization or its practices, but to point out the great expense involved in the distribution of agricultural implements, the relations of such selling expense to cost and profit, and to make some comparisons in this respect with the selling expenses of its competitors.

SELLING EXPENSE OF THE INTERNATIONAL HARVESTER CO.—For the total business of the International Harvester Co. in 1911 the table following gives the selling expense by items, distinguishing the domestic selling expense from the foreign (including Canada).

TABLE 68.—DOMESTIC AND FOREIGN SELLING EXPENSES OF INTERNATIONAL HARVESTER CO. AND AFFILIATED COMPANIES FOR 1911 SEASON.

Item.	Domestic.	Foreign.	Total.
General and assistant general agents and general and assistant general managers' salaries and expenses.....	\$509,899.80	\$401,306.48	\$911,206.28
Office salaries and expenses.....	618,341.26	491,488.22	1,109,829.48
Warehouse salaries and expenses.....	571,081.81	346,575.88	917,657.69
Blockmen's salaries and expenses.....	1,810,812.59	827,656.02	2,638,468.61
Special inducements to blockmen.....	143,323.51	35,454.62	178,778.13
Canvassers' salaries, expenses, and commissions.....	1,958,599.44	569,871.83	2,528,471.27
Special salesmen's salaries, expenses, and commissions.....	346,115.36	12,308.30	358,423.66
Experts' salaries and expenses.....	850,060.05	570,697.78	1,420,757.83
Stationery, supplies, and postage.....	173,863.69	159,297.90	333,161.59
Telephone and telegraph.....	101,560.15	65,062.98	166,623.13
Advertising.....	515,644.03	288,830.79	804,474.82
Express, transfer, drayage, and storage.....	274,657.20	188,480.42	463,137.62
Rents.....	377,615.23	200,174.82	577,790.05
Taxes and license fees.....	74,386.87	109,037.80	183,424.67
Insurance, excluding marine insurance.....	141,005.40	88,844.24	229,849.64
Freight.....	1,341,049.01	2,776,573.39	4,117,622.40
Duty and landing charges.....	97.07	2,189,398.00	2,189,495.07
Marine insurance.....		49,800.29	49,800.29
Miscellaneous.....	196,903.43	327,462.88	524,366.31
Total.....	10,005,015.90	9,698,322.64	19,703,338.54
General office, Chicago:			
Sales department, direct charges.....	186,905.28	129,661.96	316,567.24
Advertising department, direct charges.....	44,274.18	22,063.06	66,337.24
Burden of other departments.....	64,681.08	44,125.78	108,806.86
Advertising (not taken up by agencies).....	203,380.33	55,640.53	259,020.86
General selling expenses—			
Salaries, general travelers, etc.....	276,867.82	53,695.41	330,563.23
Freight absorbed by Chicago office.....	15,419.18	459.18	15,878.36
Total.....	791,527.87	305,645.92	1,097,173.79
Grand total.....	10,796,543.77	10,003,968.56	20,800,512.33

The above statement of selling expense shows not only the expenses reported from the various general agencies and for branch houses, but also the general office expense at Chicago, which, though only a small part of the total, is not a negligible item. In 1911 such expense, as allocated to the domestic business, constituted about 7 per cent of the total domestic selling expense. The chief items of domestic selling expense were for blockmen, experts, canvassers and freights; other important items were advertising, salaries and expenses of general and assistant general agents, and salaries and expenses at local offices and warehouses.

The principal items of foreign selling expense were for duties and freights. The other important selling expenses were for salaries and

expenses of blockmen, experts, and canvassers. It is noticeable that such expenses form a smaller portion of the foreign than of the domestic selling expense.

In making a comparison of selling expense with sales it is preferable to exclude such items as freight, duty, and marine insurance. Comparing the selling expense with the net proceeds of sale on this basis, the percentages of selling expense in 1911 are as follows:

TABLE 69.—COMPARISON OF SALES AND SELLING EXPENSE, EXCLUDING FREIGHT, DUTY, AND MARINE INSURANCE, OF THE INTERNATIONAL HARVESTER CO., DOMESTIC AND FOREIGN, IN 1911.

	Net proceeds of sales.	Selling ex- pense.	Per cent on sales.
United States.....	\$55,511,343.98	\$9,439,978.51	17.0
Foreign.....	37,298,906.99	4,987,737.70	13.4
Total.....	92,810,250.97	14,427,716.21	15.5

It thus appears that while the average selling expense was 15.5 per cent, the rate of selling expense was 17.0 per cent in the United States, as compared with 13.4 per cent in foreign countries.

In order to push the sale of its goods, the International Harvester Co. employs a very large force of salesmen, of which the two most important classes are blockmen and canvassers. While the total number now employed by the company is much less than the aggregate number employed by the five companies which went into the combination in 1902, or even for the first few years thereafter, it is still very large. Probably the superior means of transportation and communication to-day make it possible to do much more work with a given number than was the case 10 years ago.

The International Harvester Co. maintains about 90 general agencies in the United States, each of which has a considerable office and warehouse force. Distributed among the agencies in 1912 were 698 blockmen, or an average of about 8 blockmen to a general agency. These are the principal salesmen. Under them is a more or less mobile and changing force of canvassers. Many of the canvassers are temporarily employed. The largest number employed in any month in 1912 was 1,629, in June; in December of that year the number dropped off to 858.

Detailed figures for the amount of canvassing done by the International Harvester Co. are given in the following table furnished to the Bureau by the company:

TABLE 70.—TOTAL NUMBER OF CANVASSERS EMPLOYED BY THE INTERNATIONAL HARVESTER CO. IN THE UNITED STATES FROM 1902 TO 1912, BY MONTHS, AND TOTAL NUMBER OF DAYS CANVASSED EACH YEAR.

Year.	Jan. 25.	Feb. 25.	Mar. 25.	Apr. 25.	May 25.	June 25.	July 25.	Aug. 25.	Sept. 25.	Oct. 25.	Nov. 25.	Dec. 25.	Days can- vassed.
1902 ¹..	.....	.....	.....	.....	.....	.....	.....	.....	1,365	650	183	103	450,039
1903 ¹ ..	102	195	2,650	4,270	4,688	4,743	4,389	2,212	1,391	432	.....	388	.....
1904...	616	656	1,140	2,395	2,622	2,773	2,042	920	732	294	187	223	.....
1905...	373	423	739	1,659	2,027	1,880	1,406	765	583	351	315	359	273,612
1906...	567	838	1,158	1,882	1,557	2,042	1,851	970	844	557	498	483	327,622
1907...	659	908	1,184	1,505	1,237	1,540	1,389	802	725	533	446	372	279,904
1908...	416	564	871	1,439	1,688	1,711	1,326	1,082	889	677	558	503	276,698
1909...	651	834	1,028	1,346	1,556	1,598	1,356	1,080	950	777	715	667	306,131
1910...	814	1,052	1,296	1,689	1,708	1,695	1,389	1,192	1,072	889	824	738	337,901
1911...	885	1,061	1,315	1,611	1,816	1,830	1,533	1,438	1,241	1,070	1,038	980	366,449
1912...	1,061	1,245	1,300	1,516	1,596	1,629	1,446	1,271	1,155	1,004	932	858	384,093

¹ 1902 and 1903 include Canada.² Up to Nov. 25.

While the number of canvassers has diminished considerably since the first years of the company's operations, the total quantity of canvassing done has greatly increased since 1905, the first year for which complete data are available. This is due to the more steady employment of this force. Thus, in 1905 the number of days canvassed (i. e., the total number of days canvassed by all canvassers) was 273,612, while in 1912, up to November 25, it was 384,093. It appears, therefore, that there is no tendency to restrict the amount of canvassing as a whole, although to-day it is distributed over a greater number of lines and volume of business. An interesting feature of this table is that it indicates in recent years an increase in canvassing in winter months when the activity of the company is more particularly directed to the sale of new lines.

SELLING EXPENSE FOR DIFFERENT KINDS OF MACHINES, ETC.—While Table 68 gives a fairly clear idea of the general character of the selling expense, it does not indicate to what extent the expense applies as between different kinds of machines.

In the first place, it should be noted that in addition to selling expense there is a considerable cost involved in the collection of notes and accounts receivable of the purchasers of goods, which also should be taken account of in connection with costs and profits for machines sold. The amounts of this collection expense in 1910 and 1911 were \$1,048,836.80 in 1910, and \$1,271,128.16 in 1911, or 1.2 per cent and 1.3 per cent, respectively, of the total sales (excluding steel and fiber). Such accounts and notes can not always be collected, so there results a further loss or expense for bad debts. The amount set up for such loss or expense for the years 1910 and 1911, and was in each year almost exactly 1 per cent of the total sales excluding steel and fiber.

According to a statement furnished to the Bureau by the International Harvester Co., the percentage of selling expense, collection expense, bad debts, etc., to total net proceeds of sale, less freight and duty, in the United States (i. e., proceeds of sale less discounts and allowances and with deduction of freight and duty) for several of the chief groups of machines, etc., in 1910 and 1911, was as follows:

TABLE 71.—NET SALES PROCEEDS, LESS FREIGHT AND DUTY, IN THE UNITED STATES AND PERCENTAGE OF SELLING AND COLLECTION EXPENSE, BAD DEBTS, ETC., THEREOF, FOR THE INTERNATIONAL HARVESTER CO. IN 1910 AND 1911, FOR CHIEF CLASSES OF MACHINES, ACCORDING TO ALLOCATION MADE BY THE COMPANY.¹

Item.	1910		1911	
	Net sales proceeds.	Per cent selling expense, etc.	Net sales proceeds.	Per cent selling expense etc.
Grain machines.....	\$10,992,306.84	26.0	\$11,166,696.18	26.0
Grass machines.....	9,992,897.49	26.0	8,511,026.73	26.0
Corn machines.....	3,395,798.69	24.0	4,922,782.88	26.0
Tillage implements.....	1,927,159.71	15.0	2,014,516.75	15.0
Seeding machines.....	29,003.41	24.0	204,938.89	26.0
Engines and motors ²	6,545,746.33	21.7	7,766,797.98	22.5
Wagons and spreaders.....	7,074,715.59	18.2	5,894,751.62	17.6
Cream separators.....	1,023,431.09	24.0	757,876.06	26.0
Miscellaneous machines, attachments and repairs....	5,715,433.78	15.6	5,574,767.67	27.1
Twine.....	7,615,630.28	3.4	7,250,799.22	3.9
Outside goods.....	913,800.82	15.0	1,446,390.00	15.0
Total.....	55,225,924.03	19.6	55,511,343.98	21.2

¹ In this statement freight and duty are excluded from selling expense also.

² Motors include motor vehicles and tractors.

The total domestic selling expense, collection expense, bad debts, etc., in 1911 amounted to \$11,744,177.02, or 21.2 per cent of the net proceeds of sales in that year. The selling expenses alone, less freights and duty (see Table 69), amounted to \$9,439,978.51, or 80.4 per cent of this amount. Similarly, for 1910, the total domestic selling expense, collection expense, bad debts, etc., amounted to \$10,807,150.86, while the selling expense alone less freight and duty amounted to \$8,737,343.77, or 80.8 per cent of the total. For selling expense alone, therefore, the percentages would be somewhat lower than shown in the above table, but generally in about the same proportions for different kinds of machines, etc.

The remarkable feature of these percentages of selling expense, etc., is the great difference between the different lines. Thus, for 1911, the average selling expense, etc., was 21.2 per cent, but for different classes of machines it ranged from 26 per cent for harvesting machines, to only 15 per cent for tillage implements. It is stated

by the comptroller of the company that on wagons alone the allocation of selling expense is based on an assumed rate of 10 per cent, while the percentage allowed for spreaders is the same as for harvesting machines. The reason given for allowing only 10 per cent for wagons is that the concerns which make and sell wagons exclusively have a selling expense of only 10 per cent on the average.

While this is apparently true, it is important to consider that such wagon companies generally do not attempt to market their goods by means of an elaborate selling and distributing organization. It seems quite likely, therefore, that the selling expense allocated by the International Harvester Co. to wagons is unduly low. This is perhaps due to the comparatively low prices received in that line because of the active competition therein. The same criticism probably applies to twine and possibly also to tillage implements. While there is no doubt that binders and certain other complicated machines require special selling expense, particularly where experts are employed for setting them up, it is not evident why there should be such a great difference as shown above between wagons (10 per cent) and, for example, grass machines (26 per cent).

COMPARISON OF SELLING EXPENSE OF INTERNATIONAL HARVESTER CO. WITH INDEPENDENTS.—In making comparisons of selling expenses, the chief difficulty in using the data obtained is in getting comparable lines of business. As the International Harvester Co. carries a full and varied line, a comparison of its rate of selling expense with that of independent manufacturers would not be of much value. It is necessary, therefore, to make comparisons between particular lines of the business of the International Harvester Co. and the business of such independents as are engaged in such particular lines of business only. For this purpose the selling expense of the International Harvester Co. is taken on the basis computed by the company. These figures correspond to those shown in Table 71, but include Canada and other foreign business also.

Harvesting machines.—The most available, and the only important comparison of this sort which it is feasible to make, is that between the harvesting-machine business of the International Harvester Co. and the business of the independent harvesting-machine companies which do not carry other lines to any important extent. While the data available for this comparison make it necessary to take the total business of the International Harvester Co., i. e., domestic and foreign, both the International Harvester Co. and the independents, as a group, are not very unequally engaged in the foreign trade in harvesting machines in comparison with their total business in this line.

The average percentage of selling expenses for four independent harvesting-machine companies in 1910 and 1911 combined, was 19.3

of their total sales (excluding freight and duty). The International Harvester Co. computes its selling expense on grain, grass and corn machines, domestic and foreign, for the same two years, at 22.7 per cent, excluding freight and duty.

It appears, therefore, that the proportion of selling expense for the International Harvester Co. is greater than for the independents. A somewhat lower proportion of selling expense might perhaps be allocated to the harvesting machines in the case of the International Harvester Co., and this would, of course, affect the comparison. However, a large and expensive selling organization is employed by the International Harvester Co., and is a means it uses to get a great volume of trade without reducing prices; it can afford to do this on account of the fact that its average costs of production are lower than the average of the independents. (See p. 261.)

The best way to show the relation of these two factors of cost and selling expense is to take the percentages of each of the items to the total sales. A comparison of the ratios of average cost, selling expense, and profits to sales of the International Harvester Co., for its harvesting-machine business with that of independent harvesting-machine companies, is shown in the following table:

TABLE 72.—COMPARISON OF RATIOS OF COST, SELLING EXPENSE, AND PROFITS TO SALES BETWEEN THE INTERNATIONAL HARVESTER CO. FOR ITS HARVESTING-MACHINE BUSINESS AND FOUR INDEPENDENT HARVESTING-MACHINE COMPANIES, FOR 1910 AND 1911 COMBINED.

Item.	International Harvester Co., harvesting-machine business only.	Four independent harvesting-machine companies.
Cost ¹	56.6	71.0
Selling expense.....	22.7	19.3
Profit.....	20.7	9.7
Sales.....	100.0	100.0

¹ Cost of sales, including general and miscellaneous expenses.

The above table shows the division of sales into cost, selling expense, and profit. The International Harvester Co. had a lower ratio of cost than the independents but higher selling expense. Its ratio of profits to sales was also higher. The disadvantage of the International Harvester Co. in respect to selling expense appears to be more than offset by the fact that its extensive selling organization is one of the chief instruments for getting the bulk of the business and thus maintaining its monopolistic position.

SELLING EXPENSE IN RELATION TO A "FULL LINE."—The advantage of a "full line" in the agricultural-implement industry has been repeatedly referred to, and particularly in connection with the

advantage in selling. It does not follow that the fact will be obvious from a comparison of the rates of selling expense of different concerns. This is chiefly due, apparently, to two reasons; first, a concern which carries a full line, like the International Harvester Co., may prefer to greatly increase its selling organization, and consequently its selling expense, for the purpose of pushing its sales and getting a very large volume of business. This in turn may reduce its manufacturing costs more than enough to equalize the increase in selling expense. Second, a very important factor in the determination of selling expense is the system of distribution which is adopted. There are generally great differences in the selling expenses for different kinds of machines, owing to different methods and customs regarding sale and distribution. These are partly due to the technical requirements of the business. Thus, custom has established a more elaborate system of distribution for harvesting machines than for tillage implements, while the character of the goods themselves, and the necessity for "setting up," etc., in the case of harvesting machines, involves a greater expense than for most other lines.

While nearly all companies engaged in the distribution of certain harvesting machines utilize an elaborate organization for distribution, full-line companies with great financial resources are, to a considerable extent, able to apply the same system to other lines, such as manure spreaders, engines, and wagons. This may increase their outlay for selling expense per unit, yet in so far as they eliminate the jobber, they obtain a higher price, generally speaking, for the goods. Furthermore, they are thereby enabled to obtain a much stronger hold on the trade. By selling directly to the dealer, they establish a custom which is not so easily changed for their business as a whole as if they dealt with jobbers only. Again, through the employment of canvassers and other salesmen, they are able to get into direct contact with the farmer, and thus have an influence in shaping the demand of the final purchaser.

The most important "full-line" concerns have been briefly described above. (See p. 188.) In this group especially important competitors of the International Harvester Co. are Deere & Co., Moline Plow Co., and Emerson-Brantingham Co. Of these full-line concerns, Deere & Co. was distinctly the most important from the point of view of financial resources, in 1910 and 1911, but even this company was not in the same class with the International Harvester Co. in this respect. Those competitors of the International Harvester Co. which did not carry a full line were in most instances small.

The International Harvester Co., which is by far the most important "full-line" concern in the agricultural implement business in the United States, has a high percentage of selling expense, as has

been shown above. (See p. 276.) None of the other "full-line" concerns from which the Bureau secured the necessary data showed such a high rate. Such concerns, however, were engaged chiefly in selling plows and tillage implements, for which the technical conditions and customs of the trade impose a much less expensive system of sale.

Section 4. Policy of the International Harvester Co. in granting long terms of credit.

From early times (see p. 55) a characteristic feature of the harvesting-machine business has been the sale of goods on the installment plan, on account of the general inability of the farmers to purchase expensive machines, like binders, for cash. The farmer, or the dealer, was granted long terms of credit, commonly extending to two and three years, and sometimes longer.

This system of selling was not so extensively employed in most other lines of agricultural implements. From a statement of the McCormick company as to the methods of doing business in 1902, given in Exhibit 2 (see p. 340), the following excerpt is made:

The system of giving long credits to the farmer for purchasing reaping machines was established by Cyrus H. McCormick at the beginning of his business early in the fifties, or about 1855. It has been continued up to the present time, and it is a fact that the harvesting-machine business gives longer credit to the farmers than they receive from the manufacturers of any other goods they buy. Plows and spring tools are sold on short time or for cash. Twine is sold principally for cash in the fall of the year it is sold. The usual terms for harvesting machines are one-third ($\frac{1}{3}$) in the fall of the year the machine is purchased (this is called cash), one-third ($\frac{1}{3}$) the fall of the following season, and one-third ($\frac{1}{3}$) the fall of the second season, so that a farmer who bought his machine in the spring of 1902 would pay one-third ($\frac{1}{3}$) of it in the fall of 1902, one-third ($\frac{1}{3}$) of it in 1903, and one-third ($\frac{1}{3}$) of it in 1904, or, in other words, he would have used the machine in three harvests before it was finally paid for. Excessive competition has extended this time until it frequently happens that a farmer has three years in which to pay for the machine after the season in which he purchased it. Competition has also brought about the undesirable feature of giving a farmer a year's time without interest when the crop conditions are unfavorable and he is not able to get full use out of his machine. It is also a custom to sell machines at the close of harvest on what are called "next year's time" without interest. That is to say, that if a farmer purchased a harvester or reaper in September of 1902, he gives his note without interest until the fall of 1903, and at that time he pays one-third ($\frac{1}{3}$) cash, and one-third ($\frac{1}{3}$) each in the fall of 1904, 1905. The policy of extending this long credit has worked to the advantage of the McCormick company in some ways by increasing sales, but if the collection departments of all the various companies were

managed together, many improvements upon this system could be effected by shortening the length of credit and by making the examination of the paper taken in payment more rigid.

In the earlier years of its operations the harvesting-machine contracts of the International Harvester Co. contained a list of prices and terms wherein the cash price was shown and also the net time prices for two equal fall payments, and for three equal fall payments. For example, a printed letter issued in connection with a commission contract for McCormick harvesting machines, addressed to a dealer in Iowa, in October, 1905 (for 1906 business), provided for the following prices (f. o. b. Chicago) and terms:

Item.	Net cash price.	Net time prices (two equal fall payments, 1906-7).	Net time prices (three equal fall payments, 1906-7-8).
Grain binder, 6-foot cut, with bundle carrier.....	\$95	\$100	\$105
Grain binder, 8-foot cut, with bundle carrier and tongue truck.....	110	115	120
Corn binder, with bundle carrier.....	95	100	105
New Big 4 mowers, 5-foot.....	36	38	.....

This contract provided further that attachments should be sold for cash only, but that a transport truck would "be furnished gratis when absolutely necessary to close binder sale." Further, rakes under a sales contract if sold together with mowers under a commission contract, could be paid for in notes, limit of two falls, at one dollar advance.

For grain binders the contract provided that the number of payments should be limited to three, and for mowers to two. For grain binders, the notes were to mature not later than December 1, 1906, 1907, and 1908, respectively, and to bear interest from September 1, 1906, or from date of delivery of machine. The discount to the dealer for cash payment was not to apply unless settlement was made by October 1, 1906. The notes accepted for time payments were to bear interest at not less than 6 per cent per annum before maturity and 8 per cent per annum after maturity until paid.

Where the machines are bought on time they have not only a higher price (about 5 per cent higher on two fall payments for binders), but also the notes taken bear interest both before and after maturity. It is provided in this contract form, however, that "the first note of a series may be made to draw interest from maturity."

The more recent practice of the company is to quote only time prices on its commission contracts for harvesting machines, and to allow for cash payment by stipulated discounts. Thus, a printed

letter form issued in connection with a commission contract for Milwaukee harvesting machines, addressed to a dealer in Minnesota, February, 1911, provided for the following prices (f. o. b. Chicago) and terms:

Item.	Net time prices (two equal fall payments 1911-12).	Net time prices (three equal fall payments 1911-12-13).
Grain binders, 6-foot cut, with bundle carrier.....	\$107.50	\$112.50
Grain binders, 8-foot cut, with bundle carrier and tongue truck.....	130.00	135.00
Corn binders, with bundle carrier.....	107.50	112.50
Reaper, 5-foot.....	56.50	.....
Geared mower, 5-foot cut.....	38.50	.....

This contract provided further that attachments sold with machines could be paid for in notes in two equal fall payments, but only for cash if sold separately, and then at higher prices also; thus, a transport for a grain binder was \$3 for time payment when sold with the machine, and \$6 for cash payment when sold separately. Furthermore, it provided that rakes under a sales contract if sold with mowers under a commission contract, could be paid for in farmers' notes (limit of two falls) at an advance of one dollar in price.

For cash payments, the following provision was made:

These two equal annual fall payment prices, 1911-1912, of machines and of attachments when sold with machines, are subject to a discount of five per cent for cash received thereon at the discount dates mentioned below. If all the machines and attachments sold shall be settled for by the agent in cash at such dates, an additional discount of two per cent will be allowed provided said agent shall have then fully discharged every other of his matured obligations and debts to said company.

Further terms of payment, both for time and cash sales, were stated as follows:

Item.	Pay-ments limited to—	Notes to mature not later than—	Notes to bear interest from (or from date of delivery of the machine)—	Agent's cash discount date.
Grain binders.....	Three...	Nov. 1, 1911-12-13	Sept. 1, 1911	Oct. 1, 1911
Corn binders.....	Three...	Nov. 1, 1911-12-13	Oct. 1, 1911	Nov. 1, 1911
Reapers.....	Two....	Nov. 1, 1911-12	Sept. 1, 1911	Oct. 1, 1911
Mowers.....	Two....	Nov. 1, 1911-12	Sept. 1, 1911	Oct. 1, 1911

The contract specifically provided, however, that "the first note of a series may be made to draw interest from maturity." The rates of interest stipulated in this particular contract were not less than 7 per cent per annum before maturity, and 7 per cent per annum after maturity.

The rates of interest which the International Harvester Co. charges on the notes it receives depend apparently to some extent, at least, on the laws of the respective States in which the business is done. The International Harvester Co. submitted the following table to the Bureau which shows in a comprehensive way the variations in this respect:

TABLE 73.—VARIATIONS IN THE RATES OF INTEREST RECEIVED BY THE INTERNATIONAL HARVESTER CO. ON FARMERS' NOTES IN THE UNITED STATES, BY STATES, IN 1911.

State.	Rate of interest before maturity.	Rate of interest after maturity.	State.	Rate of interest before maturity.	Rate of interest after maturity.
Alabama.....	8	.....	Nebraska.....	7	10
Arkansas.....	8	10	Nevada.....	8	10
California.....	.....	.....	New Hampshire.....	6	.....
Colorado.....	8	10	New Jersey.....	6	.....
Connecticut.....	6	.....	New York.....	6	.....
Delaware.....	6	.....	North Carolina.....	6	.....
Florida.....	8	10	North Dakota.....	8	10
Georgia.....	7	8	Ohio.....	6	8
Idaho.....	8	10	Oklahoma.....	8	10
Illinois.....	6	7	Oregon.....	8	10
Indiana.....	6	8	Pennsylvania.....	6	.....
Indian Territory.....	8	.....	Rhode Island.....	6	8
Iowa.....	6	8	South Carolina.....	7	8
Kansas.....	8	10	South Dakota.....	8	10
Kentucky.....	6	.....	Tennessee.....	6	.....
Louisiana.....	8	.....	Texas.....	8	10
Maine.....	6	8	Utah.....	8	10
Maryland.....	6	.....	Vermont.....	6	.....
Massachusetts.....	6	8	Virginia.....	6	.....
Michigan.....	6	7	Washington.....	8	10
Minnesota.....	7	.....	West Virginia.....	6	.....
Mississippi.....	7	10	Wisconsin.....	6	8
Missouri.....	7	8	Wyoming.....	8	10
Montana.....	8	10			

The International Harvester Co. not only perpetuated the system of selling harvesting machines on long terms of credit but also after it entered into the production and sale of various new lines, it applied the same system to them also. In this connection it sometimes uses a commission contract instead of a sales contract. It is especially able to do this on account of its great financial resources. Most of these new lines were formerly sold for cash or on short terms of

credit, and even for certain of the larger concerns this innovation has made it difficult for competing manufacturers to do business.

In manure spreaders the International Harvester Co. often uses a commission contract and allows long terms of payment. Thus, in a signed letter on a printed form to a dealer in Minnesota in January, 1909, the net time prices (two payments) of manure spreaders were entered as follows:

International No. 2.....	Clover Leaf and Corn King ¹ ...	\$97.00
International No. 3.....		102.00
International No. 4.....		107.50

¹ Trade name or brand.

According to the printed terms, the prices quoted were f. o. b. Chicago, with a limit of two equal annual payments, all notes to bear interest from date of delivery of machines. The rates of interest were to be not less than 7 per cent before maturity, and 7 per cent after maturity. A discount of 5 per cent was allowed for cash, with 2 per cent additional if the agent's matured obligations to the company were all paid.

While wagons are sold as cash goods, the International Harvester Co. often allows extended credit thereon without interest. For example, in a contract and order for Weber wagons, in January, 1908, a dealer in North Dakota ordered wagons on which the printed terms were cash November 1, 1908, or notes due November 1, 1909, with interest from maturity at 8 per cent. A further special provision was: "If any of the above wagons remain on hand and unsold November 1, 1908, the agent is to settle for same by note due November 1, 1909, without interest."

The above cases are given merely as specific illustrations of a widespread practice of extending long credits in the new lines, and could be cited in numerous instances for these and other lines of goods from the actual contracts and orders obtained from the dealers.

As early as January, 1908, the finance committee of the International Harvester Co. of America adopted a resolution approving the policy of selling engines and manure spreaders on a commission contract.

Representatives of the International Harvester Co. claim that its leading competitors grant equally long credits, and declare that its policy is to develop as far and as rapidly as possible the system of cash sales—that is, cash payment in the same season as the goods are purchased—and that discounts for cash are allowed for this reason. The general cash discounts allowed are those noted above (p. 280), namely, 5 per cent discount for cash on any part of the

payment due the company, and 2 per cent additional if all matured obligations due by the dealer are paid up at the time of settlement.

While in some localities there has been a great increase in the proportion of cash sales, nevertheless, taking the business of the International Harvester Co. as a whole, it appears that the proportion of sales on long credit (i. e., one or more years) to total sales has shown an increasing tendency, especially in very recent years. This increase in the proportion of credit sales is partly due, at least, to the application of long credits on the new lines for which they were formerly uncommon.

The extent to which long credits are thus allowed on purchases of goods from the International Harvester Co.' is shown by the proportion of the amount of notes taken in a given year to the sales of the same year. Computations were made by the Bureau of the proportion of notes taken during each year and on hand at the end of the year, as compared with sales, from 1903 to 1911, which showed that for 1910 and 1911 the proportion of notes taken was considerably higher than for any of the preceding years.

Of more special interest, however, is the practice of the International Harvester Co. in respect to its business in the United States. The following table, furnished by the International Harvester Co., shows the percentage of cash sales and credit sales to total sales of the International Harvester Co. (for its agricultural implement business) in the United States:

TABLE 74.—COMPARISON OF PERCENTAGES OF CASH AND CREDIT SALES TO TOTAL SALES OF THE INTERNATIONAL HARVESTER CO. IN THE UNITED STATES, 1904-1911.

Year.	Percent- age of sales for cash.	Percent- age of sales for notes and accounts.	Year.	Percent- age of sales for cash.	Percent- age of sales for notes and accounts.
1904 ¹	70.9	31.1	1908.....	69.4	30.6
1905.....	74.4	25.6	1909.....	68.9	31.1
1906.....	70.3	29.7	1910.....	66.4	33.6
1907.....	67.3	32.7	1911.....	64.2	35.8

¹ Percentages as in original statement; do not equal 100.

According to the above table, the cash sales have shown, on the whole, a declining tendency, particularly in the most recent years. Data were not available for 1903. The proportion of cash sales ranged from 74.4 per cent in 1905 to 64.2 per cent in 1911. There was, of course, a corresponding increase in the credit sales, which in 1911 reached the maximum, namely, 35.8 per cent.

As a part of the same statement, the International Harvester Co. furnished data as to the percentages of the amounts of notes of various maturities taken in each year to the total amount of notes taken in each year, which are shown in the following table:

TABLE 75.—COMPARISON OF PERCENTAGES OF AMOUNTS OF NOTES MATURING IN SPECIFIED PERIODS TAKEN BY THE INTERNATIONAL HARVESTER CO. IN A GIVEN YEAR, WITH THE TOTAL AMOUNT OF NOTES TAKEN IN THE SAME YEAR, 1904-1911.

Year.	Percent- age maturing first year.	Percent- age maturing second year.	Percent- age maturing third year.	Percent- age maturing fourth year.	Percent- age maturing fifth year.
1904.....	34.7	48.0	14.4	2.9	.....
1905.....	36.0	50.4	12.2	1.4	.....
1906.....	30.5	58.3	10.2	.9	0.1
1907.....	29.6	63.0	7.0	.4	.....
1908.....	26.9	66.3	6.4	.4	.....
1909.....	26.5	66.7	6.2	.6	.....
1910.....	25.9	67.7	6.0	.4	.....
1911.....	28.9	64.2	6.5	.4	.....

Notes for the longer terms have shown an almost uninterrupted decline. Thus, three-year notes constituted 14.4 per cent of the total in 1904 and only 6.5 per cent in 1911, while four-year notes sank from 2.9 per cent in 1904 to only 0.4 per cent in 1911. Practically no five-year notes were taken. For the three and four year notes combined, the amount taken by the International Harvester Co. was 17.3 per cent of the total notes in 1904, and only 6.9 per cent in 1911.

The most important classes of notes taken by the International Harvester Co., however, are the one and two year notes. For the former there has been a slight decrease and for the latter a large increase in recent as compared with earlier years. Thus, for one-year notes the proportion taken in 1904 was 34.7 per cent and 28.9 per cent in 1911, while for two-year notes the proportion taken in 1904 was 48.0 per cent and 64.2 per cent in 1911. Taking these two classes together, the percentage was 82.7 in 1904 and 93.1 in 1911.

The assistant general manager of the International Harvester Co. insisted, however, that the company was earnestly trying to reduce the proportion of credit sales generally. On this point he stated in part as follows:

I want to make a short general explanation, and that is, that since the organization of the Harvester Co. in 1902 we have had with us as stockholders certain banking interests who have strenuously objected to the length of time on which this business has been conducted—the terms given—claiming that it was tying up too much capital. Since the earlier years of the organization we have been heavy borrowers, to an extent that some of our finance committee thought was at one time really approaching

the danger line; and the pressure on the operating men of the organization to try to reduce that has been rather constant. Many plans have been tried, one of which I described some time ago, and which was referred to as the 5 and 5 discount, which was tried out in certain districts in the Northwest. For a time, as I think these tables will show, we really made a little improvement in the percentage, but with the addition of traction engines, and some few threshers, and other large tools, which involve the necessity for a series of payments, our percentage in the last few years has dropped back to substantially where it was in the earlier days of the organization. We should be very glad if some plan could be worked out by other interests than ours to do more of the financing of the farmer. * * * Broadly, our policy has been to try to shorten the terms, and we have met with comparatively little success. Our business as shown here will average about two-thirds cash in the United States, on sales of all kinds. The other third is sold on longer time than we would like to see it.

This statement apparently throws the burden of responsibility for extending credits on the selling organization. This emphasizes strongly, therefore, the fact that the extension of long credits is simply a means of getting business.

The notes received for credit sales are of two kinds chiefly, namely, dealers' and farmers' bills. As to the variations in the accounts received from these two groups, the assistant general manager of the company made the following statements:

Q. In these figures * * * is any part of the amounts represented there as cash anything that has been received by the general agent in the form of a note from the local dealer and by him cashed and the cash turned over to you from the general agent?—A. Very little. Our former treasurer, Mr. Richard F. Howe, in trying to meet this same problem a number of years ago, asked us to try out the question of our being able to dispose of this paper locally at a discount so as to avoid the enormous amount that we carried and the constant collection expenses. The plan was successful in certain localities, but in the majority of instances it was not practical to do it. In those territories where the local banker would buy the paper we found the dealers were taking the discounts by themselves cashing those notes, and in the territories where the dealer could not do that it was impossible for us to do it.

Q. Would there be important differences between the proportions of receivables received by the company from farmers and from dealers?—A. As to its total volume, the proportion of paper received from dealers is very much greater in percentage than it was years ago, for the simple reason that a very large part of our business to-day is what is called the sale lines, on which we do not take farmers' paper, while ten years ago it was practically all commission goods; so that the relative proportion of dealers' paper is much greater to-day than it was ten years ago.

Q. How is it on the old harvesting lines?—A. The old harvester lines, with a few exceptions, which have been referred to in this discussion, are on the commission basis, and that is just as it was ten years ago. But do you mean what percentage of the paper do we take?

Q. For example, on the harvesting lines alone, we will assume your percentage is the same as on the aggregate—about two-thirds cash. Now, of that one-third receivables, has there been a noticeable variation in the proportion received in the form of farmers' notes and in the form of dealers' notes?—A. Whatever variation there is would be a decreased percentage of farmers' notes and a somewhat increased number of agents' notes. * * *

In a further discussion of this subject, the assistant general manager gave some information as to the particular lines in which these long credits were used:

Q. Would it be possible to show what the changes have been in respect to receipts of notes in particular lines, such as wagons, spreaders, harrows, cream separators, and gasoline engines?—A. We have had that compiled for certain territories for trade reasons, in order to know just what the conditions were. I do not think we have had a summary of it, nor do I think we have a complete compilation on that subject. * * *

Q. Taking the country, as a whole, would you say that the proportion of paper received from these lines that I have enumerated would make a substantial increase in the total percentage?—A. That is a very difficult question to answer. In the Southern States the amount of notes taken for wagons, for example, would be considerable. In States like Illinois and Wisconsin, representative States in the central district, it is nominally nothing. The dealer cashes the wagon account, and, in fact, they pay most of their accounts. The cash discount on sale goods is such that they are usually able to get the funds from their local bank if they do not have them themselves.

Q. But in States like Illinois and Wisconsin the amount of paper received for gasoline engines might conceivably be high—A. That is particularly true—

Q. (Continuing.) Or for cream separators?—A. Not so much on cream separators. It is particularly true on engines running into large sizes, as tractor engines, something that we sell for \$1,500 to \$2,500, according to the size of the machine. There is more paper necessarily taken for that class of goods than there is for smaller units.

Q. What about manure spreaders for the country as a whole?—A. We take but very few notes in settlement for manure spreaders—I mean farmers' notes; and comparatively few agents' notes.

Q. I have the impression that quite a substantial proportion of the local agents from whom we received reports stated that in many cases they had settled for spreaders in notes due the following fall.—A. That is undoubtedly true in cases where the spreaders were purchased in quantity in excess of what the dealer had been able to market, and the explanation I think I gave before. We have been trying very earnestly to push the per-

centage of business on the spreader. We have spent a lot of money in all kinds of advertising as to the subject of soil fertility and the benefits to be derived, believing we were doing good to the farmers as a class (and to ourselves as one of the big parties interested in the success of the farmer) in encouraging the use of the spreader; and I haven't any doubt that we have perhaps overpersuaded the dealers in our efforts to promote the more general use of that tool. There have been some cases where, believing the man could sell a carload, we have persuaded him to take a car, and in case he was not able to handle all of them he would say "Now this was against my better judgment when I did it, and you should carry it for us for another six months," or whatever period might be required.

There is a very general complaint from competing manufacturers, especially the smaller concerns, that the International Harvester Co. uses these long credits as a means of wresting trade from its rivals. The International Harvester Co., however, claims that some of its competitors, at least, use equally long credits. On this point the assistant general manager of the company made the following statements:

Q. Let me put a general question on this subject: With a great company like the International Harvester Co. it is conceivable that the extended credits might be used to very seriously handicap competitors—A. Yes, I can quite appreciate—

Q. (Continuing.) And might be regarded in a measure as a reduction in price, notwithstanding the fact that you advance your price with the increasing length of term, I believe? Now there are two things I would like to have you discuss if you will; how your larger competitors compare with you in that respect, and particularly whether the company has used these credits as a competitive weapon?—A. The subject matter that I have just gone over, showing our own need of a greater percentage of cash and the pressure brought to bear on the operating men for that, is in itself at least a partial answer.

Q. I realize that.—A. Further than that, we have not used that. We have been accused of it, I am aware. Let me illustrate by a case in point. * * * The head of the Rumely concern, Dr. Edward M. Rumely, perhaps a couple of years ago called on me with that complaint. * * * The facts were that our average time of payment was more favorable than his was at the end of the season's business.¹

Q. What year?—A. That was in the year 1911. * * *

Q. Have any of your other competitors ever mentioned that subject to you?—A. Yes. A. J. Brosseau, of the Gale Manufacturing Co., made that statement. In his case I do not believe he is justified, although I have no means of getting at the exact facts. The territory in which he does most of the business is a territory in which we are getting anywhere from 75 to 90 per

¹ This instance, however, related chiefly to the tractor engine and thrasher trade, in which lines long terms have always prevailed, on account of the very expensive character of the machines.

cent cash for our goods, and obviously we can not be an awfully bad disturber of trade terms in any territory where we get so large a percentage of cash.

Q. What line was in question?—A. He was talking about tillage implements, that being the only line on which he competes with us.

Q. Have you had such complaints from engine people?—A. Not that I recall. There may have been.

Q. Such complaints would come more from people carrying one line than from full-line houses, would they not?—A. I could not answer as to that.

Q. The big houses like Deere and Emerson-Brantingham, or J. I. Case would have equally long terms of credit?—A. I am very sure that Deere has. I am equally sure that J. I. Case's terms are longer than ours.

Q. Having bigger units?—A. Having a line that is comprised of larger units. As to Emerson-Brantingham, their present line would be longer than ours, because it takes in a considerable portion of threshing machinery. Prior to this past season I think that their terms would be somewhat shorter, because it was confined very largely to the sale of plows and tillage implements.

Q. And some mowers?—A. And some mowers. But I think that to-day their terms will unquestionably average longer than ours. * * *

While it is possible that certain large concerns for particular lines give equally long terms as the International Harvester Co. for the same lines, yet the International Harvester Co. seems to have led the way in some cases. There is no doubt that the smaller competitors of the International Harvester Co. find this situation very difficult to meet because their financial resources are generally inadequate to do business in that way.

The International Harvester Co. is enabled to pursue this policy of granting long terms because of the large resources which it acquired through combination. Furthermore, it has been aided therein by financial support of an exceptional character through its connection with J. Pierpont Morgan & Co., its fiscal agents, and has also secured large loans from John D. Rockefeller, father-in-law of one of the McCormicks. (See p. 163.)

Section 5. Summary.

The preceding discussion shows, therefore, that the International Harvester Co. has a distinct advantage over competitors in the low cost of production of its harvesting machines, due chiefly to large-scale production. The volume of production at the McCormick and Deering plants was equally large prior to the combination. The combination gave the International Harvester Co. the additional advantage of monopolistic control of that branch of the industry. These two advantages—large-scale production and monopolistic

power in certain lines—were used to increase the trade in the new lines taken up rather than to reduce the prices of harvesting machines. In 1912, it is true, there was some reduction in the price of its harvesting machines, but it is a fair question whether this action was not taken because of the prospect of increased competition, and possibly also because of the Government suit.

As already pointed out, the company also derives a great advantage from its exceptional command of capital. In itself this may be regarded as entirely harmless or even desirable. It is proper to point out in this connection that this exceptional command of capital was largely derived through the act of combination itself. But if this advantage, as well as that derived from large-scale production, is used in connection with a monopolistic advantage in certain lines to give the company domination over other lines, it may become a public menace. Obviously, it should be to the interest of the public to encourage efficiency of production, provided it is free from monopolistic control and the final purchaser is allowed to share the benefits secured. If as a result of increased efficiency the International Harvester Co. placed its harvesting machines on the market at a substantial reduction in price, such efficiency might fairly be regarded as an argument in favor of the combination. If, however, efficiency in this branch is to be used mainly as a weapon to strengthen the company's position in new lines, the question arises whether, when such position has been attained in the new lines, the company's policy will be to maintain high prices in these as well as in harvesting machines. At the moment it would appear that there is a possibility that the new competition now springing up may be sufficient to protect the public against unduly high prices. If, however, this protection comes only through competition and not through a disposition of the company voluntarily to permit the consumer to share in the benefits of efficiency, this fact should be clearly understood because of its vital bearing upon the public policy toward great combinations.

CHAPTER VII.

COMPETITIVE METHODS OF THE INTERNATIONAL HARVESTER CO.

Section 1. Introductory.

This chapter deals with certain competitive methods used by the International Harvester Co. that have been criticized by manufacturers, dealers, and others; practices that the Bureau of Corporations regards as objectionable.

The chief of these objectionable competitive methods are:

- (1) The maintenance of pretended competition in the earlier years of the organization.
- (2) The common practice of so allotting its brands of harvesting machines as to secure an undue proportion of dealers.
- (3) Attempted coercion of dealers to handle some lines of the company's products exclusively.
- (4) Full-line forcing.
- (5) Use of "suggested" retail price lists.
- (6) Use of special and discriminatory prices and terms.
- (7) Misrepresentations by salesmen regarding competitors.

Detailed information on the subject of competitive methods was obtained through interviews with dealers throughout the principal grain States of the Mississippi Valley, and also in the Atlantic seaboard States. Inquiry was also made of all principal implement manufacturing concerns, and of jobbing houses at such points as Kansas City, Minneapolis, Omaha, St. Louis, Oklahoma City, Des Moines, Boston, Philadelphia and elsewhere, in regard to the trade practices of competitors, with particular reference to the International Harvester Co. Careful examination of the minutes of meetings of the directors and of various committees of the corporation and its principal subsidiaries was made by agents of the Bureau. To a limited extent use has also been made of facts disclosed in proceedings under the antitrust laws of several States and in the present suit of the Government against the International Harvester Co.

In the course of the Bureau's investigation, its agents visited over 800 retail dealers at some 600 towns scattered through 27 States. These probably represented fully 75 per cent of the total number of active dealers at these particular points. Effort was made to secure as representative statements as possible. In the case of by far the greater number of the dealers visited by its agents, the Bureau had

no previous knowledge of their attitude towards the International Harvester Co., and, indeed, special effort was made throughout to interview as many dealers as possible in each locality visited without special regard to the brands of farm machinery handled. Nearly all these dealers, however, were or had been agents for the sale of some kind of the International Harvester Co.'s products.

The results as regards the International Harvester Co. were approximately as follows:

	Per cent.
Favorable.....	25
Noncommittal	20
Specifically unfavorable.....	50
Unfavorable without specific complaint.....	5

Although some of these complaints are unimportant, the fact that so large a proportion of the total number of dealers gave information involving unfavorable criticism of the International Harvester Co., indicates that objectionable methods must have prevailed to a considerable extent. While it will be observed that a substantial proportion of the dealers made statements favorable to the company, the remarkable fact is that the proportion was not larger, because under normal conditions the relations of dealers generally to manufacturers ought to be friendly.

The International Harvester Co. positively denies that it has within recent years practiced certain objectionable methods which it admits were in use for a time following its organization. It is unquestionably a fact that the methods used have changed somewhat since that time; nevertheless, there is much ground for adverse criticism.

Before the discussion of these competitive methods is taken up, it is desirable to give a brief description of the retail distribution of farm machinery and of the selling organization of the International Harvester Co.

Section 2. Retail distribution of farm machinery.

Over 95 per cent of all the farm machinery used in the country is purchased from the local implement dealer. The system of direct selling by the manufacturer to the farmer has not been extensively developed in this branch of industry.

When factories first began to take over the work of the local blacksmith and wagon maker in supplying the needs of the farmer, it became necessary to establish agencies with local storekeepers. As retail trade became differentiated, implements and hardware were commonly sold by the same dealer, and indeed still are in some parts of the country. Later, as implements increased in variety and the trade became further developed, in many sections the handling of

farm machinery grew into a distinct business. These dealers generally took up also the sale of wagons and other vehicles used by the farmer, and are therefore usually referred to as implement and vehicle dealers. From the beginning the dealer was an active force in pushing the sale of machines; he provided space for the storage and exhibition of machines; he showed farmers how machines should be operated; and he was able to furnish information to the manufacturer as to the reliability of prospective customers among the farmers in his vicinity.

The terms of the agreement under which the dealer handles the products of the manufacturer of farm machinery are usually defined in a printed contract furnished by the manufacturer. This agreement names the conditions under which the dealer undertakes to handle the goods and under which the manufacturer agrees to furnish them. It enumerates the kind or kinds of machinery to be handled and provides for prices, terms of payment, discounts, point from which dealer is to pay freight, and such other matters as may be considered necessary under the particular form of contract employed. Sometimes it also specifies the quantity of machines to be purchased, but frequently leaves this to be determined later. Such contracts are usually referred to as agency contracts, although in form they may be either commission contracts or contracts of sale. Under the former the dealer is nominally the commission agent of the manufacturer, title to the goods or to the proceeds remaining in the latter until settlement, the dealer receiving the difference between the wholesale price of the manufacturer and the price paid by the retail purchaser as his commission or compensation. Under the sale contract the dealer buys the goods outright and becomes responsible for payment, although many contracts of this sort contain provisions intended to protect the manufacturer in case the dealer is threatened with insolvency. Some manufacturers use both kinds of contract with various modifications in particular terms.

The period of time usually covered by these contracts is one year. The contract is submitted by the manufacturer's salesman to the dealer before the opening of the season which it covers, usually the fall before, or at some other time before the business of the new season is under way. It is customary for the contract to contain a clause providing that after it has been signed by the dealer and the manufacturer's representative it must be approved by the general agent or some representative of corresponding responsibility before it becomes binding on the manufacturer.

The investment of the dealer, which is chiefly in his stock, varies somewhat according to the form of contract he has. His success under ordinary conditions, like that of other merchants, depends upon his ability to gauge the market demand for the goods and his

skill as a salesman. From time to time he is visited by the manufacturer's salesmen soliciting orders under the contract. Except in harvesting machinery most manufacturers leave the work of soliciting farmers' orders to the dealer and his employees, so that the number of machines that the dealer sells to farmers and the prices received usually depend upon his own efforts.

Generally speaking, the dealer does not contract to handle more than one or two makes or brands of any particular kind of machine, and often is not allowed to by the manufacturer whose goods he sells. After selling the machines of a particular make for several years he may work up a custom closely connected with that brand of goods.

At most towns there are only two or three implement dealers. This fact, taken in connection with the fact that few dealers handle more than one or two makes of any one kind of machine, presents a very serious problem to manufacturers of lines in which there exist a considerable number of competing factories. With a limited number of implement dealers in any particular locality it is clear that in some towns some manufacturers can not secure the services of a dealer with an established trade. The difficulty of securing satisfactory dealers at such points is often so great that some concerns contract with dealers whom other concerns consider unsuitable credit risks.

Even this method of securing representation is not free from difficulties; for the dealers themselves are organized into local, State and national associations, the chief purpose of which is to protect the trade of the retail dealer against any tendency on the part of manufacturers or jobbers to sell direct to farmers, or to so-called "irregular" dealers. It is, therefore, a great advantage in several ways for the manufacturers to contract with dealers having an established trade.

In a few sections these conditions, among others, have led some makers of farm machinery to establish their own retail stores, but this method has not assumed any special importance as a means of reaching the farmer. A few manufacturers sell their products by the mail-order method, either directly or through established mail-order houses.

The retail distribution of harvesting machines, however, developed certain peculiar characteristics. From the time that they began to be sold it was the common practice for the local blacksmith or store-keeper to agree with the manufacturer to handle such machines on a consignment basis, receiving as compensation a part of the retail price which was generally fixed by the manufacturer. To some extent this was true of various branches of the implement trade, but it was an especially prominent feature in the case of harvesting machines. This system of selling on a commission contract was due to the high prices of harvesting machines for which neither the farmers nor the

dealers were generally able to pay in cash. For this reason the manufacturer in settlement with the dealer agreed to accept farmers' notes, generally drawn to cover payments in two or three annual installments. In this manner the farmer was enabled to pay for a machine from the proceeds of the crops harvested with it. While this placed a financial burden on the manufacturer by increasing the capital he required, it also became a source of additional profit, since credit or long-time sales to farmers were at higher prices and the notes often bore interest both before and after maturity, and frequently at a high rate. Dealers of greater financial strength sometimes paid cash or settled for the machines with their own notes.

The collection of great numbers of such notes required a special organization and large expense; the discounting of such notes apparently was not widely practiced. The harvester trade, therefore, early required the investment of considerable capital in the form of notes and accounts receivable.

The use of a large amount of capital was also necessary by reason of other expenses peculiar to this branch of the implement industry. To work in connection with the local dealers a great many salesmen or "canvassers" were introduced. The canvasser was the local representative of a particular manufacturer, and not, like the local dealer, interested in the sale of goods of various makers; consequently he was a more persistent force in pushing the sales of his particular line among farmers. Another expense was that for the services of the so-called "expert." Since machines were shipped to dealers in parts, or in a "knocked down" condition, the several parts had to be assembled properly. Mechanical difficulties in setting up and operating the machines were adjusted by the expert. This was an expense that manufacturers of most other kinds of farm machinery did not have to meet.

These special characteristics of the trade gave rise to some differences in the relations between dealers and manufacturers of harvesting machinery, as distinguished from those existing between dealers and manufacturers of other lines, such as plows, tillage implements, farm wagons, etc. In the first place, the dealer's contract for harvesting machinery was a commission or consignment contract; the contract with other manufacturers was more frequently a contract of purchase under which the dealer bought his goods and paid for them. Then, too, manufacturers of other lines than harvesting machines did not usually employ canvassers; consequently they did not come so closely in touch with the farmer, nor did they have so intimate a knowledge of the business of individual dealers. Furthermore, they generally sold to the dealer for cash or on relatively short terms, while the harvesting-machine manufacturers gave long credits.

Section 3. Distributing system of the International Harvester Co.

The distributing system of the International Harvester Co. is centered in the International Harvester Co. of America (see pp. 88-91), which buys the machines and other products of the International Harvester Co. and also some outside goods. The America company sells principally to dealers who in turn sell to farmers.

The sales organization of the America company is under the supervision of a general sales manager at Chicago. Under him are a domestic sales manager in charge of selling operations in the United States and Canada, and a foreign sales manager in charge of selling operations in other parts of the world.

The United States is divided by the company into five sales districts called, respectively, the Eastern, Southern, Central, Northwestern, and Southwestern districts, each of which is in immediate charge of a district sales manager with headquarters at Chicago. Each sales district is divided into general agencies, of which there are about 90 in the United States. In charge of each general agency is a general agent, who directs the traveling men and office employees of the general agency, approves contracts made with the local dealers, and has general supervision of the company's business in the group of counties assigned to his general agency. His territory is divided into "blocks" of one or more counties.

In each "block" a traveling man, known as a blockman, has immediate supervision over the trade with dealers. Through him the dealer comes in personal contact with the company in making his contract of agency and in ordering goods from the company. The blockman keeps constantly in touch with the needs, financial condition, etc., of dealers, and the extent to which competing goods are handled in his territory.

The company employs about 700 blockmen. While the travelers for most other concerns ordinarily get around to a particular town only once or twice a year, blockmen of the International Harvester Co. as a rule return to each dealer several times during a season. To accomplish this each blockman is given a comparatively small territory to cover.

Canvassers are also employed by the company to assist the blockmen and to aid the dealer in soliciting orders for International Harvester Co. machines and other products among the neighboring farmers. A large proportion of the farmers in the United States are visited several times a year by one or more of these canvassers, who report the farmer's prospective needs to the company. The company also employs experts (though not so many as formerly) to aid in setting up and starting machines and to adjust difficulties that may develop in their use. A separate force is employed for the collection of

accounts, and branch offices or agencies for collection are established at various points in the United States.

Section 4. Pretended competition in early years.

Shortly after its organization the International Harvester Co., as shown elsewhere, acquired the factories and business of four other harvesting machine companies. These were D. M. Osborne & Co., of Auburn, N. Y.; the Aultman-Miller Co., of Akron, Ohio; the Minnie Harvester Co., of St. Paul, Minn.; and the Keystone Co., of Sterling, Ill. For some time after the acquisition of these companies the change in ownership was concealed and they were operated as if they were independent.

OSBORNE.—Almost immediately after the formation of the International Harvester Co. overtures were made by officers of D. M. Osborne & Co. for the sale of its business to the new combination. These negotiations were consummated in a contract dated January 15, 1903,¹ by which the International Harvester Co. acquired the Osborne business.

During 1903 and 1904 this change in ownership was kept secret; the Osborne company was widely advertised as an independent concern, and an official of the Osborne company made affidavits, as required by the antitrust laws of the State of Missouri, certifying that the company was not a party to any agreement or combination to fix prices or output, and that it had not entered into any arrangement with any other corporation or persons to place the management or control in the hands of trustees for such purposes, or any arrangement that in any way tended to interfere with full and free competition in the manufacture or sale of any of its products. Even the general agents of the Osborne Co. were not informed that the company had lost its independence, but were assured from the home office of that company that there was no truth in the rumor that it had been acquired by the International Harvester Co. One of these general agents stated that just prior to the public announcement of the true state of affairs, in the latter part of 1904, he made a contract with a dealer who insisted that if it should develop that the Osborne concern was not in fact independent his contract of agency should be void. He stated that in view of the assurances of the company's officers he had no hesitancy in making the contract and in submitting it to the home office, where it was approved.

Another former Osborne general agent interviewed by a representative of the Bureau said that while the advertisements referred to above were appearing he was making a hard fight with full belief in the independence of the company. The general agent stated that he had instructions from the home office to tell the blockmen, when a dealer asked whether the company was in fact independent, to take

¹ See Exhibit 13, p. 370.

the question up with the general agent over the telephone. The latter stated that he was authorized to give them his personal assurance as general agent that the Osborne company was absolutely independent of the International Harvester Co. and that not a dollar's worth of Osborne stock was owned by the International Harvester Co. This general agent further stated that he made such representations in a number of cases, even to within a week of the time when he was instructed to turn his office over to the representative of the International Harvester Co.

In the judicial proceedings begun by the Government against the International Harvester Co., a former official of the Osborne company has testified that the company got no directions from anybody in the International Harvester Co. with respect to its advertisements. He testified further that the policy of concealing the change of ownership was at the request of the vendors of the Osborne business, to facilitate the collection of outstanding accounts, and to protect the value of the capital stock of the Osborne company purchased by the International Harvester Co., deposited as security for the payment of the purchase price. Cyrus H. McCormick, president of the International Harvester Co., however, had previously testified, in the suit brought against the company by the State of Missouri, that during this period of secret ownership the original officers of the Osborne company actually managed and controlled its affairs, but under advice from the International Harvester Co., and that the advertising was done by the Auburn managers under the direction of the International Harvester Co. Following is an excerpt from his testimony:

Q. What I am getting at is during these two years, although the old officers continued namely [nominally?] as the officers of the Osborne company, who actually conducted and managed the business of the Osborne company?—A. They managed and controlled it, but under advice from the International Harvester Company. The same officers continued in business, and the same management.

Q. Now during that time the Osborne company had a separate plant in Missouri, I mean separate warehouses?—A. Yes, sir.

Q. Was any advertising done by the Osborne company during these two years?—A. I presume there was.

Q. Who had charge of that?—A. The Auburn managers.

Q. Under the direction of the International?—A. Yes, sir.

Q. So during these two years it did not become known to the public so far as you know that the Osborne company was owned by the International?—A. Did not for the reason I stated.

The reason referred to by Mr. McCormick appears to be his previous statement that—

* * * they requested us not to let it be known because we did not buy their receivables. They requested us to give them

time to collect in their receivables; we fixed no special time but we had conferences with them every now and then from time to time. * * *

MINNIE.—On or about November 30, 1903, certain stockholders of the International Harvester Co. acquired by purchase from the American Grass Twine Co. control of the stock and business of the Minnie Harvester Co., engaged in the manufacture and sale of harvesting machinery and twine at St. Paul, Minn. For two seasons the company was operated as an independent plant. The alleged purpose of this policy of secret control was to aid the American Grass Twine Co., the vendors, to collect the outstanding receivables of the Minnie Harvester Co. It is alleged, further, that this factory was merely operated to complete the manufacture of materials on hand, to wind up the business and dispose of assets. On September 30, 1905, the manufacturing plant, equipment, supplies and personal property of the Minnie Harvester Co. were transferred to the International Flax Twine Co., a subsidiary of the International Harvester Co. The manufacture of the Minnie harvesting machines was discontinued and the plant converted into a factory for the manufacture of flax twine for grain binders, an experiment that proved unsuccessful.

AULTMAN-MILLER.—When the Aultman-Miller Co. failed, its assets were purchased at a receivership sale in 1903 with credit furnished by some of the chief stockholders of the International Harvester Co. The business was transferred to the Aultman-Miller Buckeye Co., a new corporation, which took over the plants and business. The interest of the International Harvester Co. in this new corporation was not made public until the fall of 1905, the company meantime being continued in operation. The defense made in this case is that the company was operated solely to close up the business and liquidate the assets and to supply repairs to owners of Buckeye machines then in use. The transfer of certain property and business to the International Harvester Co. was made in the fall of 1905. The manufacture of harvesting machinery and binder twine has been discontinued at this factory and it is now used by the International Harvester Co. for the manufacture of autovehicles.

KEYSTONE.—Early in 1903 the Keystone Company, then engaged in the manufacture of corn shellers, hay tools and disk harrows, was purchased by two former managers of the McCormick Harvesting Machine Co., associated with a former superintendent of the company and two or three others, and the manufacture of binders and mowers was undertaken. This acquisition appears to have been chiefly in the interest of these individuals, without any previous knowledge on the part of the owners of the McCormick business or any of the directors of the International Harvester Co. In October, 1904, however, certain principal stockholders of the International Harvester Co., who

were also its managing directors, purchased a controlling interest in the capital stock of the Keystone Company.

The fact that the company had thus come under the domination of the International Harvester Co. was concealed until late in the season of 1905. During this time the company was advertised and represented to be independent, and its former officers continued in charge of operations. The reason given for the policy of concealment was that it was done to permit these officers to liquidate its bills and accounts to better advantage. In September, 1905, the plant, properties and business of the Keystone Company were conveyed to the International Harvester Co. and the manufacture of Keystone binders and mowers was subsequently discontinued. The plant has since been used chiefly for the manufacture of hay tools and tillage implements.

While the representatives of the International Harvester Co. have attempted to excuse these instances of pretended competition on the ground that they sought in this manner to protect the vendors' interests, the Bureau does not regard this as any justification of a practice admittedly bad.

Section 5. Effort to secure undue proportion of dealers.

Attention has already been directed to the importance of the retail dealer in the sale of farm machinery. The number of desirable dealers at any one town does not often exceed three. The retail dealer, generally speaking, prefers not to handle any specific brand of farm machinery that is handled by any other dealer within trading distance of his customers. The International Harvester Co., by placing only one brand of its machines with a particular dealer, is able to absorb the services of a large proportion of the dealers available in any locality for the sale of the company's products.

That it is the policy of the company thus to allot its brands is shown by the testimony of Cyrus H. McCormick, president of the company, in the Missouri case in 1908. He asserted that no two dealers at any one place would be given the same line, since "the dealers do not like it, it would not be good business, and it would not be considered good business to sell the same machine to two men, that would be a very bad thing."

There is a widespread opinion in the trade that the policy of the International Harvester Co. in giving a different line to each dealer is largely for the purpose of preventing competing manufacturers from securing their services. The company's representatives have denied that this was their purpose. The assistant general manager of the company, in discussing with the Bureau the competitive methods of the company, said on this point:

* * * The statement that a man would prefer to handle one line of commission goods is true, generally speaking. It

was then and it is to-day. There is no objection on our part to a man taking any line of our commission goods not otherwise represented in his town; yet it is very rare that a man asks for representation for more than a leading line, except the permission to order anything that might be called for in other lines. His facilities are limited; his storage space, and the added expense and annoyance, and the mistakes that inevitably occur in carrying three or four lines of similar products are a disadvantage to the local dealer.

Q. I understand then that your position is that the company does not place its brands in this way for the purpose of handicapping its competitors; and you also contend that regardless of intent the practical effect is not to handicap your competitors?

A. It does not. Its sole purpose is to get more active representation of your goods which you can not do if you allow them to get into the hands of one man in a town. He will not give your customers the same consideration, the same service, as he will if he is handling a less number. Not only do we not try to eliminate them in that way, but it is a matter of real benefit to us in new sections when a competitor will get a real, live, active man in the trade. We sell more goods than we could do if we gave all our lines to one man and there was not any competitor there.

However, the records of the company itself show that the restriction of an outlet for competitors' goods was at one time at least a feature of its policy in thus allotting brands. A recommendation of the sales committee of the company unanimously adopted at a meeting held January 15, 1903, which was shown in the evidence taken in the Government suit against the company, reads as follows:

We believe that so long as there is competition it is desirable for the International Harvester Co. to maintain five selling organizations for the purpose of getting the largest amount of effort from the greatest number of local agents without expense to the company, and for the purpose of utilizing in its own business as much as possible of the available local agency material rather than permit any of it to become available for competitors.

To carry out this plan it becomes necessary for each division as far as possible to make exclusive contracts and thus get for that division the exclusive effort of the local dealer. To secure this it is necessary to give the local dealer the exclusive sale of the full line of goods of the division he is representing.

The sales committee recommends from its standpoint that each division sell only the products of that division and that in line with this, if any of the divisions have not already a large enough variety of goods, that the variety be provided either by purchase or by equipping the division to manufacture the articles required to complete the line.

This view is further substantiated by a refusal of the sales committee in July, 1903, to endorse a suggestion for the use of a universal tag on twine, its opposition to the plan being based on the ground that the doing away with distinctive trade names "would

result in a loss of trade, tend to lower prices and give the outside manufacturers too good an opportunity for business." This evidence was presented in the Government suit, as was also a report of the general sales agent of the company to one of the vice presidents in June, 1904, in which he said:

* * * We have, as you know, reached the conclusion in connection with the elimination of two of the present lines, that it is absolutely necessary that each of the agents who is to handle one of the three lines be supplied with a tedder or any other article which we may see fit to manufacture. We will, of course, by supplying each of the three sets of agents with a separate line of tools, be able to cover the best of the selling organization of the country in so far as local agents are concerned. Having reached this conclusion, we are naturally led to suggest that in developing further lines of implements it will be well for the experimental department to take into consideration the immediate necessity for supplying the sales department with three lines of tools * * * Eventually, however, as stated, we must provide, either by different painting or different branding, the three lines of these engines. In our judgment it will be a simple matter to arrange our stacker and sweep rake so that we can supply each of these agents with something different. Perhaps in that case, these tools being so much like many others that are on the market at this time, simply a little variation in painting, with the names Deering, McCormick, and Champion stenciled, will meet the situation. * * *

At a meeting of the executive committee of the International Harvester Co. of America, held in July, 1904, approval was given to a recommendation of the sales manager that the company maintain three different brands of cream separators as soon as practicable.

The foregoing statements leave no doubt that the company was fully aware that such an allotment of its brands tended to handicap competitors, and, moreover, certain of these statements show clearly that such a restriction of competition was expressly intended in employing this method of distribution. Representatives of the company, in discussing this practice with the Bureau, argued that this represented the policy of the company in the formative period of its organization, and, as above stated, denied that there was at present any intent to restrict competition. In the opinion of the Bureau, however, the continued allotment of brands in this way is significant.

The policy of allotting different brands of harvesting machines to dealers has also been extended by the company to the new lines. On the subject of the different brands in the new lines the assistant general manager said:

Q. What can you say of developing three lines in each of the other kinds of products taken up?—A. We have developed

anywhere from one to four or five. In our gasoline engines, for example, we have never had but the one line; * * *

Q. What are the Victor and the Famous; are they not distinct brands?—A. * * * There has been some effort, in places, to sell those as a separate line of engines, but it has been limited and ineffectual so far as results are concerned.

Q. How about other new lines?—A. On cream separators we have two—Bluebell and Dairymaid. We have added an improved type, brought out under a new name. On farm wagons we acquired two—the Weber and the Columbus—in the purchase of the Weber factory. We acquired three; we acquired the other in the purchase of the Bettendorf's. * * * In spreaders we developed two lines, and afterwards bought a third line—the Kemp line.

* * * * *

Q. They are called International?—A. They are marketed under distinct names, one being called the Corn King and the other the Clover Leaf.

Q. And the Kemp goes under the name of Kemp?—A. No, the Kemp goes under the name of the 20th Century, which is the trade name they adopted. In reality we have two lines today. We have developed the endless apron spreader to round out or complete the Kemp line, and by throwing the other two types together we have really two lines.

Q. How about disks?—A. On disk harrows we have marketed in the territory east of the Indiana line a number of disk harrows under their respective trade names, Deering and McCormick; this is a very small quantity relatively—broadly speaking, they are marketed under the names Osborne and Keystone.

* * * * *

Q. You spoke of two lines of seeders or grain drills; that does not include your jobbing line recently acquired?—A. No, it does not. But I want to say in explanation that our total sales of grain drills in the United States prior to the acquiring of this jobbing line, which we are now selling for the first time, this season, were very limited both as to the quantity and the territory covered. * * *

Q. Your new jobbing drill is sold under the name of Hoosier?—A. There are three—they have three names—Hoosier, Kentucky and Empire—all three being made in the factory at Richmond, Ind., but they are not sold in all territories; * * *

* * * * *

Q. Do you carry more than one line of auto buggies?—A. We do not.

* * * * *

Q. Do you have more than one line of tractors?—A. We have two, none of them made at Akron; they were earlier; one made in Milwaukee and the other in Chicago.

Q. Different brands?—A. Different brands and different types of construction. One goes under the trade name Titan, for the Milwaukee; the other under the name of Mogul, for the Chicago.

Q. How about thrashers? You job thrashers to a slight extent?—A. Yes, sir, we have jobbed some thrashers. First, a line made by the Belle City Manufacturing Co., at Racine, Wis., * * * and we have sold some thrashers of other makes, notably the Aultman-Taylor. For the coming year we are selling a thrasher made by the Buffalo-Pitts Co., at Bufflao, N. Y.

* * * * *

Q. Do you have more than one line of hay presses?—A. Only one line of hay presses, and that until recently has not been a complete line; we have been adding to it until we probably have a line fairly complete, as compared with our competition.

* * * * *

Q. Would that be sold at retail by more than one dealer in a town?—A. No; with the exception of a few points in the southern territory. There are a few points in the Southern States where we have sold two dealers in a town, by making some slight modifications on the press. Generally speaking, it is only sold as one line and is so advertised.

Q. Generally speaking, with respect to these new lines, do you allow more than one dealer in a town to carry the same brand?—A. The same principle would apply that would apply to commission goods on any other line, and I think you will find it observed by the trade in almost any business.

Q. Do you have the same brand for side-delivery rakes as you have for sulky rakes?—A. No; we use the name Keystone on all side-delivery rakes, with the exception of a few made at the Springfield factory, which have been sold through the so-called Osborne division, as Osborne.

In connection with this subject of a single line for a single dealer, it may be pointed out that this condition was found to exist at most towns visited by the agents of the Bureau, about the only exceptions being apparently at points where, rather than lose a sale for the company's machines, a dealer handling one of its lines had been permitted to take orders for some other brand in the absence of another dealer at that point handling the brand of machine desired by a customer. In a few cases dealers were found with regular contracts for more than one brand of International Harvester Co. harvesting machines. Of course, not all the brands of the company are carried in every town.

The president of the Acme Harvesting Machine Co. (which during the last few years has been the strongest competitor of the International Harvester Co. in the sale of harvesting machinery in the West) testified in the Government suit that this policy on the part of the International Harvester Co. makes it hard for his company to get a sufficient number of dealers. A similar opinion is held by a number of other manufacturers interviewed who compete with the International Harvester Co. in different lines.

The conclusion of the Bureau on this matter is that, regardless of intent on the part of the International Harvester Co., this policy

of giving a different line to each dealer, taken in connection with its control of several distinct brands of each kind of machine, has a real effect in handicapping competition.

Section 6. Exclusive handling.

The commission-agency contracts of the International Harvester Co. in 1905 and prior years contained a clause by which the dealer was required under penalty to handle exclusively the company's harvesting machinery. A typical clause of this kind was as follows:

Such agent especially agrees not to accept the agency for or to be interested in the sale of any grain binder, header, corn binder, husker and shredder, reaper, mower, stacker, sweep rake, hay rake or hay tedder, other than those manufactured by the International Harvester Company, either directly or indirectly, nor to permit anyone acting for him as employee, agent or partner, so to do while acting as agent for the said company under this contract, and said agent agrees to pay such company on demand as liquidated damages, twenty-five dollars for each grain binder, header, or corn binder; fifty dollars for each husker and shredder; ten dollars for each mower, reaper or stacker; five dollars for each sweep rake, hay rake, or hay tedder sold in violation of this paragraph of this contract.

The mere presence of this clause in the contract, even if not enforced, would deter many dealers from taking any step that might be construed as a violation. In 1905, however, at a time when antimonopoly proceedings against the company were threatened in several States, the exclusive clause was eliminated from the contract and has not been restored since. The use of this clause was discontinued in Texas as early as October, 1902, when the executive committee of the America company passed a resolution approving a report of the sales committee recommending such action for contracts in that State. This resolution, however, directed each division of the company "to discourage any agent in Texas from handling more than one brand of machine."

In connection with the elimination of the exclusive clause from the commission-agency contracts for 1906 the following excerpt from a letter written by one of the general agents of the company to blockmen is significant:

In the elimination of what has heretofore been known as the "exclusive" clause, a radical departure is being made in the commission agency business. It is of the utmost importance, therefore, that each traveler in the employ of this company sees to it at the time contracts are made for 1906 that our interests are taken care of and guard carefully against the intrusion of outside concerns on account of our waiver of the exclusive clause. It is our opinion that practically all of our agents will prefer to handle but one line of commission goods and as we are in a position to offer them greater inducements in the way of trade,

help, etc., we should be able to retain all of the advantages that we have heretofore enjoyed by reason of our exclusive contract by a proper presentation to each of our agents of our mutual interests.

Commenting upon the letter, the assistant general manager of the company said:

The only real error in that man's statement of the facts there is that he greatly overestimates any value that the exclusive clause has ever had in the past. The statement that a man would prefer to handle one line of commission goods is true, generally speaking. * * *

Since the elimination of the exclusive clause from dealers' contracts, other means have not infrequently been employed to secure the same end. In a considerable number of cases reported to the Bureau from different parts of the United States, salesmen of the International Harvester Co. have endeavored to prevent the handling of goods made by competing manufacturers by threatening to discontinue the dealer's agency for the harvesting machines of the International Harvester Co. These threats frequently were not carried out, especially if the dealer was handling a considerable amount of the company's goods and was firm in withstanding such pressure. In a majority of the cases of this sort specifically reported to the Bureau, however, on the dealer's refusal to accede to these demands his contract was canceled, or not renewed.

In the sections of the United States visited by agents of the Bureau it was found that many dealers hesitate to take up the sale of independent makes of harvesting machines, fearing to lose the contract for some brand of the International Harvester Co.'s machines if they do so. Under the regular form of commission-agency contract used by the company the dealer waives the right of action for damages should the company decide to cancel his contract forthwith. The paragraph of the contract which allows such action to be taken provides that the company—

may at any time it considers its interests are neglected or jeopardized, without notice, annul and terminate this contract and take possession of all orders, notes, moneys and machines in the possession or under the control of the agent by virtue thereof; and the said agent hereby waives and releases all right of action for damages because of such cancellation of contract.

The same paragraph gives the company—

entire control over all machines and orders, contracts, accounts, notes, moneys or other property accruing and growing out of the sale of said machines and repairs or other property.

Under the provisions of this paragraph the threat to terminate the contract is peculiarly significant.

One general agent of the company wrote a western dealer in the summer of 1909, telling him that—

no floor is large enough to hold our line and a competitor's line of goods.

The International Harvester Co. claims that the instances in which the exclusive clause was enforced were very rare. It claims that it was put in the contract as a protection against a condition that once prevailed—and that still exists to some extent—where the dealer is inclined to “tie up” the goods of the manufacturer, allowing a car-load of the company's commission goods to be shipped him and then transferring his business to some other manufacturer, making the company stand loss or damage on the goods. The assistant general manager stated that the company deals with such cases at the present time by finding some other representative. He took the ground that the company can not afford to renew a dealer's contract when he leaves its goods to “lie dead” in the trade while he is selling somebody else's goods.

This defense of the company does not explain numerous instances reported to the Bureau where dealers, who apparently have been doing a good business in International Harvester machines, state positively that salesmen of that company have threatened them with the loss of the agency for some brand of the company's harvesting machinery, or have actually canceled the contract, or failed to renew it, when they undertook to sell independent machines in connection with those of the International Harvester Co.

Section 7. Full-line forcing.

“Full-line forcing” is a term used to describe the practice of requiring dealers to order new lines of the International Harvester Co., as a condition to retaining the agency for some brand of the company's harvesting machines. This does not necessarily mean that it is the regular practice or policy of the company to force every dealer to order every kind of goods made or sold by the company. As used in the present connection, it is applied to numerous instances where salesmen of the International Harvester Co. have used this method of coercing dealers into ordering new goods of one kind or another that otherwise they would not have ordered. This complaint comes to the Bureau from a very considerable number of the dealers and independent manufacturers from whom statements were secured.

It is, of course, very difficult to say just where the practice of trying to induce dealers to take additional kinds of products ceases to be legitimate competition and becomes objectionable. The International Harvester Co., like any other concern, desires to push the sale of its goods and naturally is disposed to take advantage of the fact

that it has certain desirable machines in order to force the sale of its newer lines. Aside from any question of motive, it is apparent that any concern having a monopolistic position in the harvesting-machine business has an enormous advantage in forcing its entrance into new fields, and that this advantage is very susceptible of abuse. This practice and that of requiring exclusive handling, taken in connection with the policy of a different line for each dealer, clearly has a tendency to give the International Harvester Co. a high proportion of trade in the new lines similar to that which it now enjoys in harvesting machines. In manure spreaders, in the sale of which the use of the full-line forcing method is reported to have been frequent, the company already has more than one-half the total trade in the United States, and in other lines its proportion has increased in a marked degree.

So many cases of this sort were found in different parts of the United States by agents of the Bureau that the only conclusion that seems possible is that this represents a frequent practice on the part of some salesmen of the International Harvester Co. to use the company's domination of the harvester trade to build up the sale of new lines.

The clauses of the commission agency contract, referred to elsewhere (p. 305), and the custom of renewing such contracts annually, give the salesmen of the International Harvester Co. an advantage over the dealer in negotiating for the handling of the company's products exclusively, or in greater variety. One paragraph of the contract provides in part—

that this contract shall not be valid and binding upon the company until the same is approved by the general agent. * * *

Thus, when the general agent neglects or fails to approve the contract within a reasonable time, it affords the blockman an opportunity to work upon the dealer's fears that the contract will not be approved at all, if the dealer handles competing goods, or, unless he orders additional goods specified by the blockman. Obviously, the particular kind or kinds that the blockman desires the dealer to purchase are those lines in which the dealer already has an established trade in an independent make. The salesman knows, so far as that dealer is concerned, that the market for competing manufacturers will be curtailed to the extent that the dealer can be brought to load up with the machines of his company and be kept in that condition, even if the dealer does not agree to handle the products of the International Harvester Co. exclusively.

No figures are available to show how many dealers handling the harvesting machines of the International Harvester Co. also handle one or more kinds of its "new" goods. The company, however, submitted the following data which show the number of contracts with

dealers for the sale of its harvesting machines and the number of agents selling certain of its new lines:

TABLE 76.—NUMBER OF LOCAL AGENTS OR DEALERS SELLING SPECIFIED INTERNATIONAL HARVESTER CO. LINES, IN THE UNITED STATES, ACCORDING TO A STATEMENT OF THE COMPANY, 1908-1912.

Item.	1908	1909	1910	1911	1912
Number of contracts of old lines (binders, mowers, etc.)	31, 758	32, 511	30, 801	30, 941	30, 731
Number of agents selling—					
Spreaders	6, 417	10, 674	8, 507	7, 524	6, 483
Engines and tractors	4, 153	6, 155	5, 492	6, 382	6, 536
Hayrakes	15, 711	18, 620	16, 648	16, 207	15, 855
Hay loaders	2, 159	2, 542	2, 804	3, 047	2, 487
Cream separators	3, 495	4, 439	4, 637	4, 653	5, 346
Side-delivery rakes	2, 371	2, 888	2, 937	2, 759	2, 542
Wagons	4, 191	5, 870	5, 131	6, 598	6, 388
Shellers	1, 420	1, 874	1, 776	2, 125	3, 018

In connection with this policy of full-line forcing the assistant general manager of the company, referring to this table, said:

If that has been our policy, we have been most awfully inefficient in carrying it out, where the maximum of any one of the sale articles equals a little less than one-third the number of people we are doing business with on the binder and mower line.

While the table indicates that a great majority of dealers with harvesting-machine contracts do not handle all kinds of the company's products, in the opinion of the Bureau this is a very insufficient answer to the complaint in question.

It should be noted that in some of the principal new lines, such as wagons, cream separators, engines and tractors, there has been a practically continuous increase in the number of dealers from year to year, while in the same period the number of contracts for the old lines of harvesting machines has shown some tendency to decrease.

It will also be noted that the table contains no figures for the number of dealers handling such products of the company as twine, tillage implements (especially harrows), stackers and several other lines. If the number of contracts for these lines were included in the table, the total would undoubtedly be substantially increased.

The table seems remarkable, indeed, as showing that within a relatively short time after taking up the sale of such new lines as spreaders, wagons and engines and tractors, the number of dealers handling these lines should be so great in proportion to the total number of harvesting-machine contracts.

Commenting upon full-line forcing as a matter of business judgment, the assistant general manager of the International Harvester Co. said:

The first broad answer to that is that it is wrong in principle
 * * * not referring now to the viewpoint of the public or

consumer, which you may be looking into, but to the viewpoint of the corporation. * * * I do not mean to infer that none of our men have done it. I am sorry to say that I know they have; but they are doing it not in the sense of following our policy but as they have been allowed to wander from the path of their instructions and our business policy. The reason it is wrong for us is this. * * * I do not consider that goods are sold when they are unloaded and forced on a customer under any form of coercion. * * * In other words, a salesman who secures business in that way is trying to add to his present volume of trade at the expense of a reputation that somebody else has built up for the house on some other line of goods; while if he goes to work and sells those goods as they should be sold, on their merits, and convinces that man that they are the best value for the money that he can obtain, the fellow will go out and make a success at selling them.

* * * So that fundamentally, outside of any question of moral right or wrong so far as the public or competitors are concerned, it is a fool practice for any business house to indulge in, and the bigger the house the more objectionable it becomes and the more damaging is its effect to the house. * * * As to its application, we have repeatedly called in men and pointed out the absolute folly of trying to obtain business along that line. We know that they have done it. * * * I think that is a matter of degree. I think going back five or six years there was quite a little of it. It has been gradually growing less, and if some of us live and stay on the job it is going to get still less, because it is wrong.

Full-line forcing causes dealers to order goods in greater variety. Supplementary to this is an endeavor apparent on the part of some salesmen to overload the dealer with goods he already handles in greater volume than is warranted by his needs. It is difficult to say just where the line should be drawn, but in the opinion of some dealers and a considerable number of the competitors of the International Harvester Co. this latter practice has at times resulted in overloading the dealer with the products of the International Harvester Co. Obviously, when carried beyond the real needs of the dealer, this practice is detrimental to the interest of any manufacturer, but when judiciously applied it may be an advantage to the manufacturer employing it, by rendering it impracticable for the dealer to order goods of other makers. When the dealer is loaded up with the goods of one concern, the effect on the trade of competing manufacturers is usually the same as when the dealer is expressly required to handle such goods exclusively.

From the facts and admissions here set forth, there can be no doubt that full-line forcing has been rather extensively practiced. Obviously, such methods assume greater importance from a public standpoint when employed by a company which, like the International Harvester Co., has a monopolistic position in certain branches of the trade.

Section 8. Use of "suggested" retail price lists.

Prior to the organization of the International Harvester Co., the retail prices of the machines of the McCormick Harvesting Machine Co. were printed in the contracts of that company, the dealer being paid a cash commission. According to a statement made by an official of this company, the regular form of this commission contract gave the dealer about 22 per cent of the retail price received from farmers when sales were made for cash and about 20 per cent on time sales.¹ In contracting with the dealer that company not only stipulated what the retail price should be, but also that it should be maintained. The McCormick company claimed that it was very strict about maintaining this retail price, believing that if the dealer did not sell at a uniform price the trade of the company could not be maintained on a stable sales basis. The actual retail prices varied considerably for the machines of the different harvester companies, and when competition became severe dealers were sometimes paid a fixed sum as commission on such sales as were made at reduced prices.

The organization of the International Harvester Co., by bringing all the principal companies in that line under a common control, gave the matter of retail price fixing a new aspect. The commission agency contracts of the company in 1905 and prior years, contained a clause by which the dealer agreed—

to sell all machines or property received under this contract at such prices and on such terms as may be fixed in writing by said company or its general agent, in the territory herein mentioned.

Under this clause of the dealers' contract it was customary for the general agent of the company to write each dealer in his territory, fixing the retail prices at which the harvesting machines of the company were to be sold. The substance of a typical letter of this sort is as follows:

Conforming to the fifth clause of our 1904 agency contract with you, and that all agents and salesmen may be able to proceed intelligently in the work of taking farmers' orders for our machines, we suggest the following schedule of **RETAIL PRICES** for your future guidance until further notice:

Machines.	Cash.	Two fall pay-ments.
Grain binders, 5 feet and 6 feet	\$125	\$130
Grain binders, 7 feet	130	135
Grain binders, 8 feet, with tongue truck	140	145
Mowers, 4½ feet and 5 feet	45	47
Mowers, 6 feet	48	50
Mowers, 7 feet	50	52

¹ See Exhibit 2, p. 337.

The clause requiring dealers to sell at prices fixed by the company was contained in the commission contracts of the company for 1905, and yet in September of that year the directors of the International Harvester Co. of America adopted the following resolution:

Whereas, since the last meeting of this board it has come to the knowledge of the directors of the company that certain employees of the company have taken action in transacting the business of the company with which such employees are respectively concerned, which action, if taken under the authority of this company, might be obnoxious to the law respecting the fixing of prices and cognate matters; and

Whereas, all such action has been taken without the knowledge of the directors or of the executive officers of the company who have been ignorant thereof until their attention has recently been called thereto; and

Whereas, all such action has been taken without the authority or approval of this board or of the executive officers of the company and has been contrary to the established policy of the company:

Now, therefore, be it resolved, that all action above referred to be, and the same is, hereby repudiated and declared to be unauthorized; and the president of the company be, and he is, hereby authorized and directed to caution all the heads of the departments of this company's business and through them their subordinates against any violation of the laws relating to the fixing of prices and similar subjects.

The fact that this resolution was passed at a time when outstanding contracts of the company contained the clause referred to above (see p. 310) was called to the attention of officials of the company, but they furnished no satisfactory explanation. It seems significant that at the same time the company was threatened with the proceedings under the antimonopoly laws of several States.

Notwithstanding this resolution, however, since 1905 the clause fixing retail prices has been inserted by the company in commission contracts for the sale of thrashing machinery and binder twine.

The elimination of the above clause from the harvesting-machine contracts of 1906 and subsequent years did not end the attempt of the company to influence the retail prices of these machines. Salesmen (blockmen and canvassers) were furnished with printed or typewritten lists of retail prices of the company's products, apparently to show the prices the salesmen were expected to observe in negotiations with farmers and which they were to urge dealers to follow as closely as warranted by competitive conditions. The prices shown in these lists are referred to simply as "suggested prices."

Lists of suggested prices were found by the Bureau in the possession of dealers, as well as of the company's salesmen. Such lists were found with dealers in New Hampshire, Massachusetts, New York, North Carolina, Tennessee, Indiana, Illinois, North Dakota,

and South Dakota, covering various years from 1908 to 1912, inclusive. In 1908 and 1909 the general agency of the International Harvester Co. at Boston, Mass., published retail price lists which were sent to local dealers in the territory covered by that branch. In New York State such lists issued by the general agency at Auburn in 1909 and in 1911 were found in the possession of dealers.

In North Carolina, copies of a so-called "black book" of suggested retail prices for 1912 were found in the possession of dealers at several points. The Memphis office of the company, covering territory in western Tennessee, northern Mississippi, and the greater part of Arkansas, has issued a small "pocket catalogue" of retail prices which was sent to anyone who wrote for prices on machines. These catalogues were given to local agents to help them in fixing prices on machines. In this catalogue there is no distinction made between the different makes or brands, the prices being given simply for different sizes of particular kinds of machines.

Suggested retail price lists appear to have been sent each year to dealers in Indiana in exchange for the ones issued to them the year before, much care being exercised apparently to recall the former lists before the new ones were sent out.

In some cases such lists bear no evidence of their origin, but one such list issued by the general agency at Aurora, Ill., is mimeographed on the back of paper bearing the letterhead of that general agency, some of the sheets bearing a caution on a perforated slip at the bottom, as follows: "To Dealers: for your information! Detach before using list." It then goes on to state the point of delivery and the discounts from these prices allowed to dealers.

Dealers in South Dakota have been furnished by representatives of the International Harvester Co. with plain printed cards or typewritten sheets of suggested retail price lists. One of these dealers had cards for 1911 and 1912. Prices current in some of the towns are higher than prices at other towns in this State. These cards are reported to be furnished by the blockmen to any dealer who asks for them. At one town a dealer stated that these lists were sent to him by the Aberdeen general agency, typewritten on a plain sheet of paper. He stated that the prices shown were generally observed by the dealers in that vicinity.

Typewritten lists and booklets of prices were also found with dealers in North Dakota, covering principally the years 1908 and 1909.

Similar lists were also found in the hands of dealers at various other towns of the United States. In Michigan a dealer stated that in 1910 a so-called "green book" was in current use by dealers.

Some of these price lists cover only the goods handled by the dealer under commission agency contract; others include suggested prices

for the company's entire line, including the goods handled by the dealer under sale contract.

The position of the International Harvester Co. is that the dealer is an independent merchant, and that even the commission contract is only nominally one of agency, at least so far as prices are concerned. The assistant general manager of the International Harvester Co. denied that it is the policy of the company through these price lists or otherwise to attempt to control the prices at which the company's machines are sold by the dealer to the farmer. His statement was as follows:

Q. * * * We find that, apparently to a very general extent, the representatives—usually general agents—of the company have given out so-called suggested prices at which machines should be sold to the ultimate purchaser, the farmer. Is it the policy of the company to attempt to control the prices at which these machines should be sold, and not the dealer?—A. Absolutely, no. In fact, our instructions have been absolutely to the contrary; in fact, as emphatic and positive as we know how to make them, even to the extent of discharging men who have disregarded these instructions. But there is a constant demand, on the part of our salesmen, for these suggested prices, I think largely growing out of trade practices where so many different lines of goods are sold, marked at a list price, which is really a retail price, and the retailer is given a discount or series of discounts from list.

* * * Some of our men have been stupid enough—indiscreet enough—to comply with that request to the extent of getting out a "suggested" list. I might say, however, in justice to them that there was a period along about 1904 or 1905 when that was recognized by our counsel, at the time, as not being objectionable. Later, instructions were issued not to do it, as it led to a misunderstanding as to what our motives were. Many of our branch houses have compiled lists for our own men, and the need for doing this any of you gentlemen familiar with the retailing of goods will quickly comprehend. Very frequently our men meet a customer who inquires for some tool or article that we make. Perhaps his neighbor has bought something, or he has seen something that we make, but which is not carried by the dealer with whom our salesman is working; and it is incomprehensible to the farmer for the salesman to say that he does not know the price on an article made by the company he represents, and so for his convenience a memorandum has been made up, sometimes in the form of a typewritten letter, sometimes in the form of a printed pamphlet, giving the approximate retail price. Usually that price is considered to be the maximum price asked by agents in that district who do handle the goods. Obviously, if our salesman quoted a price less than was customary, he would be in hot water immediately with the dealer who was selling at any figure above that quotation. * * *

* * * Q. What is the history of this book? Who got it up, and for what purpose?—A. Our agent at Grand Rapids, Mich. This

one is number one. They are issued to our own salaried men, and, on leaving our employ, they are required to return them to the office; they are not given to any local dealer.

* * * * *

Q. Are these lists gotten up at the head office of the company?—A. No; they are not. To my knowledge there are only perhaps five or six points in the United States where I know of such lists having been gotten out.

Q. In what time?—A. In recent years—during the last two or three years' time. It has been done at Aurora, Ill.; it has been done at Grand Rapids, Mich.; Milwaukee, Wis., and, I think, at one or two other points. Memphis, Tenn., is one, and to the best of my knowledge they have been confined entirely to our own salesmen.

Q. You do not know of any cases where they have been handed out to the dealers to guide them in naming prices to farmers?—A. We have heard of a few cases where the general agent has given that information in some form to the dealers; but this has been promptly corrected as it came to our knowledge, the last one I know of being at Sioux City, Iowa.

Q. In what year?—A. Within the last two years. They furnished them not to every dealer but to certain dealers who asked for it—a typewritten retail list, gotten up for the dealer at his request. That thing came to our knowledge, and we promptly ordered it to be discontinued.

* * * * *

Q. Does the salesman have any instructions in regard to this matter—positive instructions either from you or from the general agents?—A. Our general agents have all had positive instructions on this subject. I can answer that positively.

Q. What are they?—A. That they should not in any way interfere with, or indicate to the retail merchant the price at which he should sell his goods. That is, for the past seven or eight years, I should say. That was not true when we started out doing business.

Q. Those instructions were made in writing to the general agents?—A. Those I have knowledge of are made across the table, personally, with the general agent, and more emphatic than I could do it in writing.

Q. Was that done because you found the general agents were dictating the retail price?—A. Some of them were doing it regardless of instructions.

Q. You take it up only with those agents whom you find actually doing it. It is not a subject of a general letter to the agents?—A. I can not recall it ever being made the subject of a general letter; and there would be no need of giving this matter attention except as we had information to the effect that a man was not following the usual policy, which he is certainly not doing when he gives a retail price to any local agent.

Q. Do you have any information as to the instructions given to the blockmen or the canvassers?—A. Yes; but I can not make that as specific as you perhaps want. In some cases, I have; but not in all. Now, just one more word on that subject. Follow-

ing this demand on the part of the local dealer for a list of retail prices, we brought out in a catalogue, or dealers' book, a year or two ago, a blank form in which he might insert his prices for his own convenience; and we told him we could go no further than that. We told him, Here is a catalogue, or list, of all the goods we have to sell; that we could only furnish him with the wholesale price, and, then, he might, for his own convenience, insert, or extend, his retail figures in the proper place in this catalogue. That has been of comparatively recent date, say, within the past two years.

Q. That was sent to all dealers?—A. I can not say all dealers, but generally in sections where there was a demand for a retail price from the trade.

It appears from this statement that in the catalogue referred to space is provided in which retail prices may be entered. It is then, of course, a simple matter to communicate these prices to the dealer.

Furthermore the Bureau received reports from dealers in Oklahoma, Missouri, Kansas, Ohio, Illinois, North Dakota, South Dakota, Indiana, and other States that the salesmen of the company give dealers oral information of the price at which the company's goods should be sold, and the prices at which other dealers in the locality are selling.

Evidently the same result can be reached by this oral method as by the use of the printed lists.

It will be noted from the statement above quoted that the International Harvester Co. professes that it is opposed to the issuance of these suggested price lists. Obviously, the company could completely stop the practice if it genuinely desired to do so.

While the company's position is that these lists have no effect and are not intended to have any effect in the direction of maintaining retail prices, the Bureau is of the opinion that their distribution actually does have an effect in this direction by deterring dealers from making price concessions in some lines.

Section 9. Discriminations in prices and terms.

The general practice of the International Harvester Co. is one of uniform prices to dealers for similar machines of the same quality and quantity. Complaint was made to the Bureau that in some instances the company has engaged in local price cutting to an extent not warranted by ordinary competitive conditions. Admissions of the company show that moderate concessions are rather frequent. A limited number of deep cuts have been found by the Bureau, but the company positively asserts that this is not its policy, although admitting that substantial cuts have been made in a few instances to dispose of old or damaged or old-style machines, particularly harvesting machines. It is difficult to draw the line be-

tween moderate cuts and those that would be considered excessive. It should be pointed out that local price discrimination for the purpose of destroying the trade of competitors is contrary to the law in several of the States in which the International Harvester Co. is engaged in trade.

In some of the new lines, such as farm wagons and manure spreaders, in which lines the company's proportion of business has rapidly increased, the International Harvester Co. has pursued a policy of distinctly low prices and long terms. This it has no doubt been able to do by reason of high prices in the sale of old lines, in which it meets, of course, comparatively little competition.

So long as local competition is confined to dealers handling different brands of the company's products, there is, generally speaking, relatively little use for special prices, terms, or discriminations, except, apparently, to unusually strong dealers, or at times to move old stock. When necessary, however, to meet competition the general agents of the company appear to have had a considerable degree of authority to name prices and terms that will get business. A former general agent of the company, in discussing the use of special prices and terms with a representative of the Bureau, said that the district sales manager (from whom the general agent receives his orders) does not tell the general agents in so many words to get business by cutting prices below those of competitors, but that when the general agent goes ahead and gets business by cutting prices below those of competitors, there is ordinarily no objection from headquarters.

The assistant general manager of the International Harvester Co. stated that the general agents of the company have no fixed limits in the extent to which they are permitted to authorize special concessions. He claimed that these employees should not work within "dead line" limits but should have authority to dispose of old and damaged stock at the best prices obtainable; that it was a question of a man using good business judgment. For the purpose of preventing the abuse of this authority the district sales managers are maintained at Chicago to see that the general agents do not "slaughter" prices and terms. He stated that the general agent has no positive instructions, but that he knows that if he does not make a good showing his usefulness to the company is gone, and further that each general agent is checked up on the total amount of his concessions and as to whether he has made any that are exceedingly heavy. If the total amount of concessions is small and it does not appear that he has made a big cut and if there is nothing that—

looks out of reason, that is probably all there is of it, but if the total amount is excessive or if he has made a heavy concession on any particular article or quantity he is immediately called upon to explain why that has happened.

According to the assistant general manager, however, the company does not regard a heavy concession made "to meet competition" as having been made for a satisfactory reason. He said:

We found that every once in a while somebody had done something foolish. * * * We realize there has been some weakness in the control of this feature and have taken steps that must be effective. They come into our office every thirty days—any concession of any kind from the regular wholesale list covering both terms and prices.

In further explanation he said:

We have to confess that the check on concessions—while not admitting that there have been any grievous errors committed under it, because there have not—but there have been such that we would not have approved had we the opportunity to stop it in time, and we have put in a more effective and prompt check on any possibility of that sort of thing happening. Of course, it goes without saying that if we had not found it necessary we would not have gone to that trouble.

HARVESTING MACHINES.—It is clear that by reason of its dominating position in the harvesting-machine trade the company would not ordinarily find it necessary to cut the prices of these machines except as some competitor might be getting too strong a foothold in some particular locality. It is probably true that the International Harvester Co. does not want to completely eliminate competitors in this line. Indeed, until the season of 1912, regular wholesale prices to dealers for International Harvester Co. harvesting machines were somewhat higher than those of its chief competitor in the principal grain States west of Chicago. A few instances have been found, however, where substantial cuts are reported to have been made apparently for the purpose of defeating sales by this competitor and some others.

The International Harvester Co., as already stated, claims that its salesmen are permitted to make cuts of the character of those mentioned only in order to move out-of-date stock and that it does not countenance such cuts for the purpose of meeting the competition of independent machines.

General agents of the Harvester company have at times been authorized to cut prices on stocks of harvesting machinery on hand at the end of the season. One general agent, in discussing these clean-up sales, said that he had been instructed to avoid publicity in such transactions in giving the blockmen under him authority to allow these prices to dealers.

It is admitted by the company that there has been some discrimination made to local agents in the matter of setting up harvesting machines and for doing their own work of canvassing. This practice is excused on the ground that it does not reflect a business policy but a

weakness in the organization of the company which the company is trying to eliminate. It is practically admitted that up to two or three years ago concessions of this sort ranging from \$3 to \$7 on each binder were made even where the work was not performed by the dealer but by employees of the International Harvester Co., and that it is probably still being continued in some cases. The assistant general manager of the company stated that the company had been trying to eliminate this allowance and had eliminated it in many cases about a year ago, when a reduction was made in the price of machines. He stated that in his opinion the business of the company has been very much better in this respect in 1912 than it has ever been heretofore. He put the reason for the effort to eliminate this concession on the ground that it is dangerous for a big corporation to grant concessions that can not be explained satisfactorily to competing dealers.

Apparently this allowance has often been used in cases where the work has actually been performed by the employees of the company as an effective concession to push the sale of the company's harvesting machines.

It should be pointed out that this concession has admittedly prevailed more generally in the East than elsewhere, where the eastern independent factories making harvesting machines find their best domestic market. It also appears significant, when considered in connection with a letter (produced as evidence in the Government suit), dated August 30, 1902, addressed by the sales committee to the chairman of the executive committee of the company. The sales committee thought that it would be necessary to make concessions of about \$5 on harvesters and binders and of \$2 on a mower in territory east of Pittsburgh, for the purpose of meeting conditions and prices that had existed in the past and where the company was "likely to encounter its strongest competition in the future." This letter also recommended that each division be permitted to make concessions in certain special cases to some agents who had been accustomed to lower prices—

with whom we might consider it advisable to continue to do business, even at reduced prices, rather than to allow them to become part of the organization of any one of the companies with which the International Harvester Co. will have to compete.

The assistant general manager of the company admitted that during 1903 it was unquestionably a part of the policy of the sales committee of the company to depart from the regular fixed price to meet local competition, but he denied that such policy was what was specifically referred to in this letter, but rather a difficulty foreseen in trying to bring about an even price.

Inasmuch as machines are generally sold f. o. b. factory, except for eastern and southern territory, freight charges are an important consideration to the dealer. The sales committee of the International Harvester Co., in a letter to the executive committee dated August 30, 1902 (introduced in evidence in the Government suit), said:

We bring before you the question of making all prices delivered to the agent's point and prepaying the freight. We do not wish to be understood to be recommending this, but only suggesting it for your consideration, the intent of doing this being its effect in our favor as against competing harvester companies and securing and holding to us the best dealers in the country. This would be an extremely popular concession, and one that more than likely competing companies would not be financially able to grant.

This recommendation of the sales committee does not appear to have been adopted generally, however, by the company. It is evident that the adoption of this policy generally would handicap any concern without large resources, but it is also evident that when applied to some dealers and not to others it constitutes a discrimination. In some sections where the International Harvester Co. formerly followed this practice of prepaying freight it has been abandoned. For example, dealers at several towns in Illinois stated that up to two or three years ago they purchased the machines of the International Harvester Co. delivered at their home stations, but at the present time they are compelled to pay the freight from Chicago.

East of Chicago it is the usual practice of all harvesting-machine companies to sell carload lots at a delivered price and less than carload lots delivered at the nearest general agency or transfer point.

To dealers in certain parts of the West equalizing of the less than carload freight rate to the carload rate (i. e., making an allowance to the dealer for the difference between the less than carload rate and the carload rate) appears to have prevailed to a greater extent formerly than at present, but it appears to be still used at times as a discriminatory allowance.

Obviously, it is difficult to determine exactly the cumulative result or even the extent of the concessions, large and small, that have been made by the International Harvester Co. in the sale of harvesting machinery during the 10 years of its existence. On the whole, the Bureau does not consider that the trade of competitors of the International Harvester Co. in harvesting machines has been greatly impaired by reason of such unfair discrimination in that branch of its business.

NEW LINES.—In the new lines of the International Harvester Co., such as harrows, farm wagons, manure spreaders and gasoline en-

gines, some local concessions in prices and terms have been found in various parts of the country. A more important matter in its effect upon competitors in these lines, however, is the policy of the company of establishing generally over a broad territory an unusually low basis of prices or granting terms longer than those customary in the trade. If the International Harvester Co. were doing business in these lines only, and chose to do business on a low-price basis, there would be little ground for criticism. The important point in this connection is that the International Harvester Co. reaps a monopolistic profit from its harvesting-machine lines, and is thereby enabled to pursue an unusually low price policy in other lines, apparently with the object of securing control of them also.

In this connection the assistant general manager of the company acknowledged that considerable price reductions had been made on certain new lines in which the company's prices "were not in line with the market."

Many of the company's principal competitors complain of the long-payment plan of the International Harvester Co.

Harrows.—In the harrow trade, one Kansas City jobber asserted that the International Harvester Co. had "shot the market to pieces." One of the best-informed independent manufacturers making tillage implements declared that the International Harvester Co. "sells terms, not harrows." He stated that representative terms of the independent manufacturers for spring trade are net cash July 1, with 5 per cent off for settlement April 1, and on fall trade net cash November 1, with 5 per cent off September 1. As compared with these terms he asserted that the International Harvester Co. gives practically two years' time.

According to the representative of an Omaha jobbing house the prices of the International Harvester Co.'s harrows to different dealers in that jobbing territory varied as much as 10 per cent, making competition extremely difficult in view of the low basis of prices.

An official of an eastern factory whose competition with the International Harvester Co. is in harrows and other implements, stated that—

ever since the International Harvester Co. was organized our company has had more or less difficulty in meeting their prices. We had an established trade with dealers in the Eastern States and in Ohio and Michigan, and everything went along in good shape until the International began to offer special terms and discounts which we could not afford to meet. The idea of giving small dealers a special discount was new to us. We always gave a big buyer some extra consideration, but never felt that the small buyer was entitled to the same treatment. The terms and

inducements offered by the International and the prestige they get from the old harvesting lines they control, have made it pretty hard for small concerns like ours to compete with them.

In connection with these statements other competitors also stated their belief that low prices and long terms in harrows have been adopted by the International Harvester Co. for the purpose of securing control of that branch of the implement industry—a policy that it is better enabled to pursue by reason of its monopolistic position in the harvesting lines.

Farm Wagons.—Until within recent years the manufacture of farm wagons has been chiefly in the hands of concerns making little else. For this reason the effort of the International Harvester Co. to secure this market has been severely felt by many such concerns. It is peculiarly a trade in which the capital of the manufacturer is not turned over rapidly, owing to the necessity of purchasing wood stock to be seasoned before it can be utilized. Any extension in the time of payment by dealers correspondingly lengthens this period during which the manufacturers' capital is not available for reinvestment in his business.

In the sale of wagons the contract of the International Harvester Co. has a definite settlement date on its face, but it has become customary in many cases for a dealer to settle at the end of the season for such wagons as he has sold and for the company to take the dealer's note and carry the stock unsold until settlement time at the end of the ensuing season. This practice is not common among other wholesalers of wagons. It is the usual practice among wagon manufacturers and jobbers to sell to dealers on terms of about six months, except in straight carload lots, which may be carried for a period of nine months or a year. Some wagon manufacturers require settlement of one-half the amount in four months and the other half in six months, with 5 per cent discount for cash in 30 days, with an April 1 dating on shipments made during the earlier months of the year. Sometimes a dealer ordering a second carload is allowed 5 per cent discount for cash in 60 days. The general opinion among independent wagon manufacturers and jobbers handling independent makes of wagons was that there was little or no money in the farm-wagon trade, owing to the competition of the International Harvester Co. They asserted very generally that the terms allowed by the International Harvester Co. would eventually destroy the trade of the smaller wagon concerns. In this connection it should be repeated that the returns of the International Harvester Co. on its wagon business are exceptionally low. (See p. 243.)

According to an eastern manufacturer of farm wagons, when the International Harvester Co. began to push this line its prices and

terms, both to dealers and farmers, were such that his company could not afford to compete. In 1908 he reached the conclusion that the International Harvester Co. was bent on securing control of this branch of the industry, and recommended that his company gradually get away from the standard farm wagon line. Up to the time the International Harvester Co. entered this trade this eastern concern had had no trouble in maintaining its own in competition with other concerns.

The burden of the competition of the International Harvester Co. in the farm wagon trade has not been confined to its small competitors, however. A branch house manager in the West of one of the larger full-line competitors of the International Harvester Co. stated that the prices and terms for International Harvester Co. wagons and disk harrows had cut into the business of his own company to the extent of 75 per cent. He asserted that the International Harvester Co. is "smothering" competition on account of its size and not by reason of the quality of its goods.

Similar complaints of the prices and terms of the International Harvester Co. on wagons have been reported by other competitors. Perhaps the most striking feature of the whole situation is the fact that the company has greatly increased its output in the face of a decreased output for the United States as a whole, while as just stated its profits in this department are unusually low.

Manure spreaders.—In the sale of manure spreaders the International Harvester Co. has admittedly been very aggressive, and according to the statement of the assistant general manager the concessions allowed have been much larger and more frequent than on any other line of the company's goods. This he attributed to the fact that the company has made a vigorous fight to increase its business in this line and to dispose of machines on hand in anticipation of a change from wood construction to steel construction, and a change in type from high to low-wheel machines, which, he asserted, had made it necessary to market the stock on hand at considerable concessions in price. He claimed, however, that this has also been found necessary by other manufacturers.

For several years the International Harvester Co. has sold spreaders on both of its principal forms of contract—commission and sale. In the commission form of contract the dealer is allowed to sell these machines on two years' time, and while the sale contract names definite prices, terms and dates of settlement, dealers have very frequently been permitted to settle by note for machines unsold at the end of the season. As shown elsewhere, the company has acquired more trade in this line than is enjoyed by all of its competitors combined. Representatives of the Bureau found cases where jobbers with a considerable volume of trade had given up the sale of inde-

pendent spreaders, the reason given being that they were unable to compete with the prices and terms of the International Harvester Co. Other jobbers interviewed asserted that for the same reason they were contemplating discontinuing the sale of these machines.

Substantial differences were found by the Bureau in the prices and terms on spreaders of the International Harvester Co. to dealers in the same general locality.

Gasoline engines.—There is a very considerable number of factories making nothing but gasoline engines. Nearly all of these manufacturers interviewed, even those of considerable size, stated that it is very difficult for them to meet the terms of the International Harvester Co. One competitor alleges that in some cases the International Harvester Co., in selling its engines, takes payment in notes maturing in the fall of four consecutive years,¹ compared with 6, 9, and 12 months at longest for his own concern. He said that his own company can not tie up its capital by allowing such long terms; it requires some cash payment and the longest notes generally run for about six months. He stated that the prices of the International Harvester Co. are pretty well maintained, but that long credit extended by the company is attractive to some purchasers and gives it a great advantage.

Among the numerous manufacturers of gasoline engines in southern Michigan also, the principal ground of complaint against the International Harvester Co. is likewise the difficulty of meeting its terms. Some of these manufacturers also called attention to certain variations in the retail prices of the engines of the International Harvester Co.

Section 10. Misrepresentation of competitors by salesmen.

Farmers and dealers alike desire, of course, to purchase machines that they feel are well constructed of good material, made by a company able to furnish repairs at any time they may be needed to replace broken or worn-out parts. Any doubt in regard to such matters tends to injure the company affected. Such an injury exists if doubts are created as to the financial standing of a manufacturer, or that he may not continue in business, thus making it impracticable to obtain repairs when it becomes necessary to do so. Similar apprehension arises if the farmer or dealer believes that control of the business of a particular manufacturer has been acquired by another competing concern, since such a change might result in the discontinuance of the purchased company's line.

In the competition of the several harvester companies before the International Harvester Co. was organized it appears to have been

¹ These are probably extreme cases; see p. 284.

the policy of the selling organization of each company to effect sales by discrediting other concerns and their products through misrepresentation of some sort, as well as by selling their own machines on merit. (See p. 61.) It seems to have been a recognized custom to carry such tactics even to the point of persuading farmers to cancel orders already given to competitors. The consolidation of several harvesting-machine companies under common control lent color to reports that, of the other concerns not already taken in, this or that company, or an option for its purchase, had been acquired by the International Harvester Co. Several instances of this sort occurring in the earlier years have been reported to the Bureau. An official of the International Harvester Co. positively denies, however, that this practice was ever countenanced by that company. The latest case of which he had any recollection was one occurring in New York State some time in 1905 or 1906, where the attention of the International Harvester Co. was called to the case of a canvasser who, when sued for damages by an independent manufacturer for making such statements, appealed to the International Harvester Co. to defend the suit. The reply alleged to have been given by the officials of the International Harvester Co. was that if the man was guilty of such a practice after all that had been said to stop it the company would do better to help the competing manufacturer to convict him. It is stated that the company not only did not help this employee but that he was discharged, making public apology to the independent manufacturer.

At about the same time or somewhat later complaint was made to the International Harvester Co. by another competitor that salesmen of the former were circulating reports that the International Harvester Co. had become interested in the management of the competing company.

During the last few years salesmen of the company do not appear to have been active in spreading stories of the kind mentioned. In this connection an official of a competing company says that while formerly there was more or less talk by the salesmen of the International to the effect that the company of which he is an official was about to be taken over by the International Harvester Co., he believes that such statements would not be made at present except by a salesman who didn't know his business. This is corroborated by the statement of an official of another independent company, who says:

There hasn't been so much attempt to break the contracts of the independents lately, particularly in the case of getting farmers to cancel orders for independent machines. * * *

Recent complaints have been chiefly to the effect that the salesmen of the International Harvester Co. frequently represent that pur-

chasers of competing harvesting machines will be unable to secure repair parts, the implication being that the competitors may not continue in business. A representative of the International Harvester Co. admitted that this practice existed to some extent, and also that it was serious and indefensible. He said that the company had "used a lot of time, energy, and money trying to eliminate it," and contended that it was inherited from the bitter competition which preceded the formation of the company. He asserted positively that it was contrary to the policy of the company. While the Bureau received numerous complaints of this sort, apparently the practice has not resulted in seriously handicapping competitors.

Section 11. Conclusions.

It appears, therefore, that the International Harvester Co. has resorted to practices which are clearly objectionable. It has attempted to monopolize local retail dealers through its policy of maintaining several brands of harvesting machines and giving only one brand to a dealer. It has sought, by threatened cancellation of its binder contracts, to induce dealers to handle its products exclusively. Furthermore, it has used its binder agency as a club to force dealers to handle its new lines. Its agents have misrepresented competitors in statements that farmers will not be able readily to secure repair parts. It has employed "suggested" retail price lists. Finally, in lines substantially monopolized, it has maintained a high level of prices, while giving reduced prices or long credits on machines in which it meets active competition. It has thus employed its monopoly in the harvesting-machine branch of its business to further its control of the new lines, a practice which appears to have been the keynote of its policy.

Representatives of the International Harvester Co., in answering some of the complaints above discussed, made a strong point of the fact that the business of the company's competitors, particularly in harvesting machines, had increased in recent years. This is undoubtedly a fact, as already shown. (See p. 181.) It is important to point out, however, that this is no real defense for practices which in themselves are bad. It is a fact which may properly be taken into account in estimating the effectiveness of competitive methods, but not the propriety of methods which are unquestionably unfair or improper. Moreover, as already shown, the International Harvester Co. has thus far substantially maintained its monopolistic position in the harvesting-machine business, while in several of the newer lines, in which it had no interest at its organization, it has in a short period of years built up its business so rapidly that in some of these it now has a large proportion of the trade, and in one, manure spreaders, a majority of the business.

The company furthermore laid considerable stress on the fact that whereas in the early years of the organization various methods were extensively employed which were undoubtedly objectionable, many of these had been eradicated or greatly reduced. The Bureau is of the opinion that this is to some extent true. But the numerous complaints received by the Bureau with respect to conditions in recent years show clearly that these objectionable practices have by no means been eliminated.

In considering these competitive methods of the company it should be borne in mind that practices which might be regarded with more or less indifference if there were a number of competitors of substantially equal size and power may become highly objectionable when one competitor far outranks not only its nearest rival but practically all rivals combined, as is true of the International Harvester Co. for several of its most important lines.

EXHIBITS.

EXHIBIT 1.

STATEMENT MADE BY MR. STANLEY McCORMICK AND MR. BENTLEY TO MR. PERKINS, JUNE 27, 1902, IN NEW YORK CITY.

The McCormick Company is an Illinois corporation, organized in 1879 under the Laws of the State of Illinois, with a capital stock of \$2,500,000. This stock is held entirely by the McCormicks.

The company's officers are a president, vice president, secretary, assistant secretary and treasurer.

The incorporation papers provide for a directorate of five. There have been only four directors for several years. These are Mr. Fowler and the three McCormick brothers.

The company has 65 salaried general agents in this country. Salaries average about \$2,500 a year for each general agent; no commission. Each general agent reports to the central office at Chicago.

Under these 65 salaried general agents there are sub or local agents, numbering about 12,000, for the most part engaged in other lines of business.

The company has 2,000 traveling salesmen in this country. These are hired by the general agents entirely. These traveling salesmen are employed from about the first of March until the first of October. They are paid a salary of from \$50 to \$75 a month, and in addition are paid their traveling expenses. They work entirely under the direction of the general agents, who send them to the sub agents, with whom they work, drumming up trade and selling machines. These traveling men received last year, in salaries and traveling expenses, \$1,200,000.

The sub or local agents are paid entirely by commission. That commission is variable according to the article sold, but it averages about 20 per cent.

Mr. A. E. Mayer is manager of the sales department and is in charge of the selling organization.

The offices of the general agents throughout the country, about 65 in number, are in many cases in the buildings owned by the McCormick Company in the various cities, which buildings are used as storehouses for goods. Thirty out of the 65 general agencies are housed in buildings owned by the McCormick Company. The buildings are almost all used entirely by the McCormick Company.

As a rule the buildings are located in the wholesale district of each city, along the line of a railroad, with switching facilities.

A bond of \$5,000 is required from every general agent. The general agents have great latitude in the hiring of traveling men.

The general agent reports each month to the central office at Chicago as to the number of men he has hired. In this same report the general agent makes a statement as to the number of machines received, the number of machines sold, on what accounts he has paid out money, notes collected, etc.

There is no method of controlling the relations between the general agent and the traveling agent or the local agent, or of knowing whether the general agent has used good judgment and his best efforts to conduct the business at the minimum cost in all respects, except by comparison with previous years in his own district, whether managed by him or some other general agent, and by frequent visits of inspection from the head office.

MANUFACTURING DEPARTMENT.

The Works and the Twine Mill are thoroughly "sprinkled" and are largely insured in the Senior Mutual Companies.

Mr. McCormick knows of no patents that have just expired or that are about to expire that would affect their business one way or the other.

The McCormick Company is now erecting a plant, which will cost from \$600,000 to \$750,000, in which they will manufacture their own malleable iron. This plant is in the immediate vicinity of the present works. The Deering people have been manufacturing their malleables for from five to ten years. By manufacturing their own malleable iron the McCormick Company should save the profit of the malleable foundry and also have advantages in being able to get a sure and regular supply of the malleable iron, which is a very important feature.

The McCormick Company have nothing that is a radical improvement over anything of the Deering people, and the Deering people have nothing that is a radical improvement over anything of the McCormick Company.

The McCormick Company own a patent on the mower, which they consider a very important one, which covers the feature of raising the cutter bar from the ground to a vertical position without the driver leaving his seat. This feature is not, perhaps essential to the operation of the mower, but it is one that has proved very attractive in selling. It has been on the market for about three years and it has taken very well, so that the McCormick Company think it may become an important feature. The McCormicks feel that they control this. The McCormick Company also control a patent which covers the vertical plan of construction of the corn harvester, and they consider this a very important patent, being superior to the horizontal plan which is used by the Deering Company. The Osborne Company are building under the patent of the McCormick Company, paying the McCormick Company a royalty. The McCormick Company have been approached by the Milwaukee Company for permission to use this plan under the same conditions, but they have refused. 1894 was the first year in which the corn harvester was put on the market. Several hundred were sold during the first year. During 1901 about 27,000 were sold.

The McCormicks know of nothing immediately connected with the manufacturing end of the business that is likely to affect it adversely in the immediate future; on the contrary they are constantly putting in improved machinery and labor saving devices and generally systematizing the plant, all of which goes to produce the machine at a lower cost. They are also getting a more accurate system of ascertaining the cost of manufacture. The McCormick Company are developing a very important new business in using flax fibre for the manufacture of twine. The process is being patented.

There are no lawsuits of any importance now on between the harvesting companies, in connection with patents. The McCormick Company has given the D. Co. notice of infringement of the mower patent referred to. This is infringed also by other companies.

LABOR SITUATION.

There was a riot in Chicago in 1887 and the McCormick Company's men were more or less mixed up in it. The anarchists assembled near the works, harangued the men, and finally got some of them wild. They made a rush for the gates and battered them in. No special damage was done, however. Since then there has been but one trouble in the foundry, and that was owing to the introduction of the pneumatic moulding machines. These were abandoned afterward because they were not satisfactory. Occasionally there has been a slight disturbance among the machinists—one or two men were discharged perhaps, but the disturbances were very slight.

There are no unions that the McCormick Company have to deal with. The same is true of the Deering people. The company is doing some good work in the lines of "betterment" or "welfare work" among its employees.

TRANSPORTATION ARRANGEMENTS.

The McCormicks leased about four miles of track from the Santa Fe Railroad and incorporated it into a railroad called the Illinois Northern Railroad. They also put their own track system in the works and connected it with the Illinois Northern.

The McCormick Company's dealings are entirely with the Illinois Northern Railroad, which railroad acts as a go-between with the McCormicks and the other railroads. The Illinois Northern Railroad has traffic arrangements with quite a number of other railroads; for instance, the Pan-Handle, the Burlington, the Santa Fe, the Chicago Terminal and Transfer, the Union Stock Yards Railroad (which is another transfer line), the Pennsylvania, and the Chicago & Alton; so that it gives the McCormicks very good railroad facilities and makes it very easy and convenient for the McCormicks to make arrangements with the other railroads.

The McCormick works are situated at Blue Island and Western Avenue. There are 5,300 employees in the reaper works, and 1,200 in the twine mill. This mill is next to the reaper works. The twine works, however, is conducted as an entirely separate organization, reporting direct to the central office.

FINANCIAL POLICY.

During the last two years \$12,000,000 has been added to the assets of the company. The policy is to secure working capital through the year by borrowing it from the banks, beginning early in the spring and borrowing as the money is needed from time to time, and then liquidating during the fall and winter. For instance, this year they expect to borrow about \$10,000,000 in all. This, however, is a larger sum than is ordinarily borrowed, and is occasioned by the improvements being made in the plants and the new construction going on. Last season, for example, the maximum sum borrowed was about \$5,500,000 and this was practically all repaid by the first of January. During the last five years over \$15,000,000 has been invested in additions to plant in Chicago and in the country.

In the last five years the company have declared about \$5,000,000 in dividends.

About one-third of the money borrowed last year was furnished by the McCormicks themselves or through other individuals, and two-thirds was borrowed from Chicago, New York and Boston banks. The bank loans were obtained this year at about 4 per cent interest. Last year the interest was the same. The McCormicks believe that the other companies have always borrowed a great deal more money than they did.

From 50 per cent to 60 per cent of the machines are sold for cash and the rest on time covering two years from the fall when the machine is sold. The loss on the time sales is about 4 per cent. Five per cent additional is charged on a machine when the sale is a time one. The notes are carried by the company itself. The company has a system of special agents who do the collecting in certain localities. Out of 65 agents there are about 6 who are collecting agents. The company has been rather fortunate in not having many deficits or defalcations among the general agents. The general agents keep the money collected from sales, report once a month, and remit with their reports.

CENTRAL OFFICE.

There is the head of the sales department, and he has an assistant.

There is the head of the collection department, and he has an assistant. This head has charge of all collections and of such general agents as do not have special collecting agents in their territory. These general agents report to collection department.

There is the head of the twine department, which is an entirely separate works. This head has charge of the twine mill and reports directly to the central office. The twine sales are always for cash. This head also has charge of the purchasing of the fibre from which the twine is made; he also has an assistant; this head also has relations with the general agents on all twine questions.

There is the head of the purchasing department. He has charge of all the purchasing, with the exception of the fibre, for the manufacture of twine.

There is the head of the transportation department. He has charge of the Illinois Northern Railroad and all questions of transportation rates.

There is the head of the legal, patent and experimental departments, which are merged in the one man as they all seemed to be connected.

There is the head of the foreign sales. The foreign sales are separate from the domestic sales, so that although Mr. Mayer is called the head of the sales department it would be more accurate to say that he is the head of the domestic sales department.

There is the head of the accounting department.

A new department was recently organized, which is called the order and shipping department. The head of this department attends to all orders that are received, sees that the orders are filled promptly, and attends to shipping them.

There is the superintendent of the reaper works, who ranks as the head of a department.

There is the head of the advertising department.

The total sales of machines last year amounted to \$18,400,000. Total sales of twine amounted to \$4,000,000. Repairs amounted to \$1,000,000.

The net profit on the \$18,400,000 of machines sold was approximately 22 per cent. There was practically no profit on the twine end of the business, either to Deering or ourselves owing to the unsettled conditions resulting from the Philippine war which raised the cost of the fibre. The profit on the \$1,000,000 of repairs was probably about 45 per cent. While the profits of last year have not been made up, they are known to be over \$4,000,000.

In a general way, the machine sales five years ago amounted to about \$12,000,000. It is estimated that a combination will produce an increase in the sale of repairs; so that even if the sale of machines fell off in the next five years, the sale of repairs would necessarily increase, and the percentage of profit on repairs is very large.

The McCormick and Deering people, in talking over how they might get together, estimated, in the matter of good will, that about two average years' profits ought to represent the good will of each company's business.

In negotiations not a great while ago the Deerings rather expressed the opinion that if the McCormick and Deering Companies were to come together it ought to be on a basis of about 53 for the McCormick Company and 47 for the Deering, while the McCormick figures have been anywhere from 55 to 60 for the McCormick Company and 40 to 45 for the Deering Company. These figures are not as far apart as they seem to be, because the Deering people have always refused to regard the outstandings as legitimate assets of the businesses in forming a combination. Without these the percentages, according to the McCormick Company's figures, are about 55 to 45 as against the Deering's figures of 53 to 47.

OTHER COMPANIES.

The Deering Company is estimated to be worth, including their bills receivable.....	\$25, 000, 000
The Massey Harris Co. of Canada.....	9, 000, 000
(This estimate was made by Mr. Swift of the McCormick Co. Mr. Middlekauff has estimated this company to be worth \$18,000,000.)	
The Champion Company (Warder, Bushnell & Glessner) of Springfield, O., is estimated to be worth.....	8, 000, 000
The Plano Manufacturing Co. of Chicago.....	6, 000, 000
The Milwaukee Harvesting Company.....	4, 500, 000

The Champion Company.—Mr. Glessner is president of this company. Mr. Harold McCormick saw him three or four weeks ago and sounded him as to what he would think of the several harvesting companies getting together. Mr. Glessner seemed to be very much interested in having it done and said that his company would not be particular as to details or as to what influence would predominate.

The Champion Company is a stock company and the stock is rather closely held by the gentlemen directly interested in the management of the company, with the exception of the Warder interests. Mr. Warder was the senior partner of the firm. He is now dead and Mrs. Warder lives in Washington. The Warders have no active interest in the business. It has been said that Mrs. Warder owns about one-third of the stock of the company. Mr. Fowler had a conversation with her about a year ago, in which he got the impression that she would like to sell.

The Plano Company.—Mr. W. H. Jones is president of this company and is the dominating influence. Mr. O. W. Jones, his brother, is vice president. He visited Mr. McCormick about four weeks ago and in a casual way asked if something could not be done in the way of a combination. He remarked: "If you and I were appointed a committee of two to put this through it wouldn't take us a week to wind it up," giving the impression that he was anxious to see it put through. This Mr. Jones takes rather a pessimistic view of the trade. He thinks that prices will have to be reduced considerably. He thinks, for instance, that a machine now selling to the trade for \$100 will soon have to be sold for \$75. At one time he expressed himself as entirely friendly to control by the McCormicks. He also thought the smaller companies like the Plano Company would stand a better show in the case of strenuous competition than the larger companies, because of smaller charges in the way of organization.

GENERAL.

Mr. Deering has approached both the Plano and Champion Companies, but so far as is known he has no option on either one.

Mr. Deering has claimed that the McCormicks have conducted their collection department in too liberal a manner.

Mr. Deering is about 75 years old. He is a born trader of the David Harum type. He gives one the impression, however, that if he once gave his word he would stick to it. His reputation is that of a very shrewd, skillful trader. He is the kind of man who would make a bluff and then stand by it, no matter what the consequences. Disaster might come to the negotiations from a determination on his part that he would make a gamble of it; that is, he would ask for a certain price and if he did not get it he would say "Well, we'll go on just as we are now."

Mr. Deering may oppose the kind of organization the McCormick Company has, which develops the strength and capability of important men and places responsibility upon them. His plan has always been to keep the lines in his own hands and then play off one man against another. This plan has produced much jealousy and friction in the Deering Company.

Mr. Deering's relations with Judge Gary are very close, but they are of such a nature that you would get a great deal more help if

Judge Gary came to you with a proposition than if you got at Deering through Judge Gary. Judge Gary has far more influence over Deering than anyone else. Mr. Deering usually has some scheme up his sleeve. For instance, he very likely might already be negotiating to get hold of the Warder interests and might be planning to do the same with regard to the other companies.

The men who represent the elder Mr. Deering, who has retired from the business, are Mr. Charles Deering and Mr. James Deering, his oldest and youngest sons, and Mr. Richard Howe, his son-in-law. These three younger men constitute the present copartnership. Mr. William Deering, however, keeps in close touch with the main matters of the business.

The thing that would prevent an excessive demand on Mr. Deering's part would be the fact that he asked for only two average years' profits as the measure of good will of his company. The demand for control of any new company by the McCormicks has been the chief obstacle met in these negotiations with Deering.

The Deerings have indicated that they would prefer not to sell for cash, but would take securities and keep an interest in the management of the new organization.

Mr. Deering has urged that the whole trade be taken into the combination. Against this it has been suggested to him that if only 90 per cent were brought in it would be quite possible to deal with another of the minor companies if any one made excessive demands; that is, no minor company is probably essential to the combination, although the five named are undoubtedly the most desirable.

Mr. E. K. Butler was general manager of the McCormick Company up to 1897, since which time he has been out of the business entirely. He is about 65 years old. It is said that he is now in the service of the Deering people. It would not be advisable that he be brought into the business in any capacity.

EXHIBIT 2.

STATEMENT SUBMITTED TO BANKERS BY McCORMICK HARVESTING MACHINE CO. IN 1902.

ORGANIZATION, McCORMICK HARVESTING MACHINE COMPANY.

The sales of the product of the McCormick Company are under the supervision of three departments:

1. Sales department (domestic).
2. Foreign department.
3. Twine department.

SCOPE.

(1) SALES DEPARTMENT (DOMESTIC).—Mr. A. E. Mayer, sales manager. This department has charge of the United States and Canada. In Canada, for the sale of machine and repairs (or duplicate parts) the business is done through six general agencies:

Regina, N. W. Ty.
Winnipeg, Man.
Toronto, Ont.

Ogdensburg, N. Y.
Montreal, P. Q.
Boston, Mass.

In the United States business is done through sixty-five general agents and one dealer at Salt Lake City. The general agencies are in,

Mass.: Boston.	Minn.: Mankato, Minneapolis, Albert Lea.
New York: Ogdensburg, Elmira, Albany, Rochester.	Iowa: Sioux City, Ft. Dodge, Davenport, Ottumwa, Des Moines, Council Bluffs.
Penn.: Pittsburg, Harrisburg, Philadelphia.	Mo.: Kansas City, Springfield.
Ohio: Cleveland, Columbus, Cincinnati.	La.: New Orleans.
W. Vir.: Parkersburg.	Tex.: Dallas.
Vir.: Richmond.	O. T.: Oklahoma City.
N. Carolina: Charlotte.	Kas.: Topeka, Wichita.
Georgia: Atlanta.	Nebr.: Lincoln.
Tenn.: Nashville, Jackson.	S. Dakota: Aberdeen, Sioux Falls.
Ky.: Louisville.	N. Dakota: Grand Rapids [Forks], Fargo.
Ind.: Terre Haute, Indianapolis, Evansville.	Mont.: Helena.
Mich.: Grand Rapids, Saginaw, Jackson.	Wash.: Spokane.
Wis.: Eau Claire, Green Bay, Madison, Milwaukee.	Ore.: Portland.
Ill.: Aurora, Peoria, Quincy, E. St. Louis.	Cal.: Stockton.
	Colo.: Denver.

(2) FOREIGN DEPARTMENT.—Mr. W. C. Mundt, foreign manager. Mr. Mundt has under his charge—

Mexico.—Direct representative in this country, under Mr. Mundt, is August Hyde, selling outright to 15 dealers at points as follows:

Irapuato, Gto., Mexico.	C. Porfirio Diaz, Coah., Mexico.
Mexico City, D. F., Mexico.	Guaymas, Sonora, Mexico.
Puebla, Puebla, Mexico.	Guadalajara, Jalisco, Mexico.
San Luis Potosi, San Luis Potosi, Mexico.	Monterey, Coah., Mexico.
Colonia Dublan, Chih., Mexico.	Jiminez, Chih., Mexico.
Gomez Palacio, Durango, Mexico.	Saltillo, Coah., Mexico.
Chihuahua, Chih., Mexico.	Parral, Chih., Mexico.
Juarez, Chih., Mexico.	Durango, Dgo., Mexico.

South America.—Selling outright to dealers at points as follows:

Buenos Aires.	Santiago, Chile.
Montivideo, Uruguay.	Valparaiso, Chile.

Cuba.—Selling outright to one dealer at Havana.

Africa.—Selling outright to three dealers at points as follows:

East London.	Malmesbury, C. C.
Durban, Natal.	

Australia.—Our direct representative, under Mr. Mundt, is Fred Hewetson, handling the business with dealers to the number of four at,

Melbourne.	Sidney.
Perth.	Adelaide.

New Zealand.—Selling outright to one dealer at Christchurch.

Europe.—Mr. W. C. Couchman has charge of the trade of Europe and is called the European manager. He has entire charge of the trade in Europe, and Mr. Mundt is his local representative at this office, but Mr. Couchman is not responsible to Mr. Mundt, their positions being of a co-ordinate nature.

(1) General agencies at,

Hamburg, Germany.	Budapest, Hungary.
London, England.	Zurich, Switzerland.
Berlin, Germany.	Riga, Russia.
Odessa, Russia.	

(2) Selling outright to dealers at,
Finland: Helsingfors, Abo, Wiborg.
Norway: Christiania.
Egypt: Alexandria.
Sweden: Malmo, Pitea, Umea, Stockholm, Sundsvall, Ostersund, Gefle.
Holland: Groningen.
Denmark: Copenhagen.
Turkey: Constantinople.
Italy: Grosseto.
Spain: Bilbao.
Roumania: Bucharest.
Portugal: Lisbon.
Greece: Athens.
France: Paris.

(3) TWINE DEPARTMENT.—H. L. Daniels, manager. The twine department sells through the same agencies and has the same scope as the domestic sales department and the foreign sales department combined. The twine department deals upon the question of twine just as the other two departments deal on the question of machines.

METHOD.

The product of the McCormick Company in machines and twine is sold in different ways to meet the different conditions of the territory organization. In general there are three ways of selling our product:

(1) Consigning our product to our general agents, who in turn consign them to the local agents, who in turn sell them to the farmers. (This is the method in vogue in the United States.)

(2) Consigning them to our general agents, who sell them to the local agents, who sell them to the farmers. (This is the method which is coming in vogue in Europe.)

(3) Selling direct to each dealer, who in turn sell direct to smaller dealers, or to the farmer. (This is the method which is in vogue in foreign countries generally, but which is being supplanted in Europe by plan No. 2.)

Generally speaking our grain harvesters, corn harvesters, reapers, mowers, headers, shredders and header binders are handled by the local agent on a commission basis. This may be a cash sale or a time sale, but in either event the local agent gets the commission on the price he sells to the farmer as his remuneration. (The exception to this method is where these machines are sold outright direct to the dealers, we getting our pay for them either against the bill of lading or in short time notes. This is the custom in general in foreign countries, except in Europe.)

Our twine, rakes and sickle grinders are usually sold outright on a net cash basis to the local agent. These sales are not on a commission basis. By net cash we mean payment between October and January 1st of the season in which they are sold; the exception to this custom being in cases of irresponsible local agents, speaking from a financial standpoint, where we desire to control the sale of the twine and to continually hold the ownership of it, in which case it is sold on commission, we retaining the title until it passes directly to the

consumer. Or, in the case of rakes, where occasionally we will take a note for a rake, that is sold by the local dealer, with a mower; both machines being settled for by note.

Summing up the situation, our commission business is done through our general agents in the United States and Canada, excepting in case of twine and rakes which are sold through the same channels on our regular cash basis. Again, outright sales are generally made to foreign countries, including Mexico, excepting in Europe. In Europe our trade is undergoing a transition. A few years ago we had no direct representative in Europe, but sold outright to each dealer. Within the past few years we have established our own organization in Europe with the result that to-day we have seven general agencies doing business on a consignment basis. The other channels in Europe are at present on the direct sales basis.

(1) CONSIGNMENT TO GENERAL AGENTS, WHO CONSIGN TO LOCAL AGENTS, WHO IN TURN SELL TO THE FARMER.

During the fall and winter and the spring we manage [manufacture] our product and distribute the surplus of product, over the capacity of the warehouses in Chicago, to our various warehouses throughout this country. Up to April 1st we have to store the machines and twine very largely at our own expense and through our own channels. After April 1st our local agents will receive shipments direct from the Works and will store them themselves. However, under the pressure of the trade this date is continually advanced on the calendar. After the season's business in the fall, the general agent commences to organize his force for the coming year's campaign. This is done during the process of settlement of the past season's business, so that in many districts at no time of the year is the district without a canvassing force in the field selling our machines. This applies more particularly to the central middle states and southwestern states, where the winter wheat is sown. In the territories in the North and northwest canvassing is postponed until February or March, largely on account of it being a spring wheat country and the uncertainty of crops until late in the season.

One of our territories handled by a general agent will contain from 75 to 175 local agents, according to the population and according to the crop producing capacity of that territory. These local agents are divided up into districts of 15 to 40 local agents, presided over by district agents, so that a general agent will have directly over [under] his control and responsibility from 5 to 10 district agents. These men receive from \$75 to \$110 or \$115 a month. They are the lieutenants of the general agent, presiding over their respective districts and are held responsible for the trade in their districts. They are men who have risen up from the ranks and should be capable of selling machines as well as collecting money for machines and should be men who could make settlement with the local agent at the end of the season. Under each district agent is the selling force of from three to ten men who go round the country, riding largely in buggies, visiting the farmers and soliciting the purchase of machines and twine, and generally it is desirable that they should be accompanied by the local agent of that section. These men receive from \$40 to \$75 per month and their

expenses. These men, including their salary and expenses, often times run up a bill of \$125 to \$150 a month to the company, in return from that they are supposed to sell from say 10 to 40 orders a week based upon the time of the year and the ability of the man. Then there is the expert who goes out as harvest draws near and fixes up the machines which the farmer complains of during the winter and which the local agent desires to have patched up in order that his standing in the community, as a hustling local agent, can be established in the eyes of his constituents. These experts, therefore, fix up last year's machines by adjusting them, or putting on new duplicate parts, in case worn parts are necessary to be replaced, and then as harvest approaches these experts go round the country and set up or build our machines for the local agent and for the benefit of the farmer. There are very few farmers who can set up their own machines. Also, there are very few local agents who have the capacity and the help at their command to set up the machines for those people to whom they sell. The local agent, if he is a good local agent, is a typical man in his community. He must be aggressive and popular. It does not make much difference what business he is in, although the best local agents are continually in the implement business of one kind or another, but there are good local agents who are in the lumber business, hardware business, etc. These local agents at the beginning of the year make a contract with the district agent of their territory in behalf of the general agent to the effect that they will sell the McCormick line for the coming year on such and such terms. We usually specify the terms very clearly. Some of the companies do not specify the terms, but leave that to be decided afterwards. Some contracts are written on a sliding scale basis, so much for so many machines, so much less for so many more machines, etc., but usually a straight commission contract is made with them, giving them 22 per cent off the retail price to the farmer for cash say, or 20 per cent for time; cash being payment between October and January 1st of the season in which the goods are sold; time being 2, 3 and 4 yearly payments. The McCormick Company is very strict about maintaining the retail price to the farmer, believing that no matter what price they get from the local agent, if he does not sell his product on an uniform basis, their trade cannot be maintained upon a staple sales' basis. Therefore, in making a commission basis with this local dealer, we not only stipulate that we are to give him a certain commission on the retail price which is asked, but that that retail price shall be maintained to a greater degree as is compatible with the conditions of the territory which we ourselves carefully watch. Out of this commission the local agent pays the freight on the machine and is supposed to go to the extent of doing his own canvassing among his constituents for orders. It, also, theoretically calls for the cost of setting up the machines to be borne by him, but under the stress of competition not only do we usually have to set up the machine for him, but, as mentioned above, we have to send our own canvassers out into the territory to sell this product upon which he gets his commission. On the other hand the stress of competition makes the local agent many times unable to sell his machine for retail price which we ask him to get, so he sometimes in order to make the sale will throw in a sack of twine for which he has to pay us, or he will take back in exchange an old machine at a valuation of five to fifteen dollars, which we do not

receive and recognize (which is of little or no value to him), so that after the transaction is all completed, there are expenses coming out of the local agent's commission, so that to-day he does not get very much money out of his commissions.

The sale of twine, rakes and sickle grinders is not made upon a commission basis, except in exceptional cases, but these goods are sold outright to the local agent at the beginning of the season, or as early as we can make the sale, and he takes upon himself the responsibility of selling these goods. As a matter of fact, however, if a local agent cannot sell his twine which he has bought from us he is oftentimes unable to settle with us for that twine in cash, so that we are compelled in certain instances to accept his paper for the sale of that twine.

Therefore, in summing up this classification of doing business we find the general agent at some large city looking to the central office here in Chicago, under whom are his staff of district agents, canvassers and experts who do business with his corps of local agents, who are dealers in the community and who make commission contracts with the McCormick Company for the disposal of their goods during that season. When these canvassers go out into the country to take orders for machines, with or without the presence of the local agent of that section (as the case may be), they take the order of the farmer for whatever machine he wants, at whatever price it may be, and they make this order out in triplicate form, one copy the farmer keeps, one copy of this is sent to the local agent and one copy is sent to the general agent at headquarters. The general agent thereupon enters into a consultation with the local agent as to the security of this sale and as to the standing of this farmer. The general agent, or through his collecting force, rates that order. If it is good he tells the local agent that he accepts the order, which acceptance relieves the local agent of responsibility later on at settlement time. If he is bad, he turns the order down, and the local agent cannot consider that order made for him. The method of rating the orders before the settlement of the local agent, at the end of the season, is different in different territories. In some territories the general agents do not rate their orders first, but hold the local agent responsible to cash in any orders which they turn down at settlement time with him and when they refuse to take the paper of this farmer. It is usually the custom after getting the order of a farmer not to settle with him by taking his notes for the goods until after he has had his machine set up on his farm and in many cases until after he has cut his crop. We are endeavoring to make settlement with the farmer now either before or at the time of the delivery of the machine. After the orders have been received and the machine has been sold, the local agent, or the canvasser, endeavors to secure settlement for this machine by taking a note. After this note has been received by the company, it is turned over to the collection department for collection, or in case of cash, the local agent turns over the cash, which he has received from the farmer, to the company and thereby gets his extra commission for cash. Some strong local agents give the company cash for the machines, getting the extra discount thereby and then retain the notes themselves, or get them discounted at the bank, but this is rather unfrequent.

The district agents go into the central office of the general agent frequently for orders and to discuss questions pertaining to other districts. At the general agencies on Sunday the force usually convenes at headquarters to talk over the affairs of the week and to outline the program for the coming week. The canvassers and experts are routed either by the general agent or by the district agent with the concurrence of the general agent.

Settlement with our local agents is made after the season's business is over, and is usually done by the district agent, who settles for the machines, twine, duplicate parts, etc. At the same time, he often renews the contract for the coming year if he is satisfied with the local agent's settlement with him, or if he is not, he holds the question of a future contract open. Sometimes, the district agent will hold out the next year's contract with a local agent pending his satisfactory settlement of the present year's business.

Summing up, the general agent is on our force all the year and is on the regular salary payroll. The district agent is the same. The canvassers and experts are short time men; length of time and salary and expenses depending upon the pressure of the trade in the given locality. The local agent is a dealer in an independent business, but carries the McCormick line on a commission basis, having samples in his store, and protects and cares for the interests of that line. I might add in conclusion that in some few cases we make a contract with the local agent giving him simply \$10 on a binder and \$5 on a mower, and we do all the work. It practically means the same as a commission deal with a little less energy on their part in helping us to drum up the trade.

(2) CONSIGNMENT TO OUR GENERAL AGENTS, WHO SELL THEM TO THE DEALERS, WHO SELL THEM TO THE FARMERS.

This method is that which developed in Europe and is the evolution from the third class hereafter mentioned, in which we heretofore have sold to large dealers, who in turn sold outright to smaller dealers and in this same manner to the farmer. Owing to our growth of the business in Europe we have eliminated in several of the countries this large dealer, who heretofore would take a number of machines from us, pay us cash and sell them to his smaller dealers and to the farmer. Under our present system in these cases, we consign our goods to our general agent in Europe and he sells to these dealers throughout his territory. In this way we have eliminated the big dealer, absorbed his profits and put into the business energy and aggressiveness, which he did not have under this system. We have canvassers and experts to a smaller degree than is the case in America, but the number of these is growing on our forces. We find that in territories where we have taken over the handling of the machines, our trade is growing very fast, and we are getting many dealers to buy our goods who heretofore did not do so. It is natural to suppose that in the course of time we would change the local dealer to a commission basis as we do in the United States but it would be some time before this would be done. To conform to the laws of several of the countries in Europe, we on our books put these machines to their account at a certain valuation, but, of course, the

general system is not changed, which is as above stated. These smaller dealers, therefore, buy the machines of our general agents in the various countries, and these various general agents look to Mr. Couchman, at Hamburg, for their policies and instructions, their accounting, etc., and he in turn transfers his information to this office through Mr. Mundt.

(3) SELLING DIRECT TO BIG DEALERS, WHO SELL DIRECT TO SMALLER DEALERS, WHO SELL DIRECT TO THE FARMERS.

This is the method of doing business with all the foreign countries in general, except those parts of Europe where we have taken our business over on a general agency basis. The big dealer buys his machines of us, at a price laid down in New York City usually, and he hands out these machines in the territories under his control to dealers under him; in many cases, there being two or three stratum of dealers before the farmer is reached. Of course, each dealer takes a slice as his part of the transaction; this slice being to him a larger percentage of profit than we would be satisfied with if we had the various profits of these middle men for our account. We have also found that they do not push the trade as we do, on a direct organization basis; also, that they use our machines to further their other lines of goods regardless of the interests of the McCormick Company. In some cases, as in Australia, we furnish a man to help our dealers sell goods, such as with our agents at Sidney and Adelaide in Australia. In other cases, as in Mexico, we have a man who is practically general agent, who deals directly with these larger dealers and whose business it is to see that they buy and dispose of the portion of machines which we think in that territory is ours.

COLLECTION DEPARTMENT.

The system of giving long credits to the farmer for purchasing Reaping Machines was established by Cyrus H. McCormick at the beginning of his business early in the fifties, or about 1855. It has been continued up to the present time, and it is a fact that the harvesting machine business gives longer credit to the farmers than they receive from the manufacturers of any other goods they buy. Plows and spring tools are sold on short time or for cash. Twine is sold principally for cash in the fall of the year it is sold. The usual terms for harvesting machines are one-third ($\frac{1}{3}$) in the fall of the year the machine is purchased (this is called cash), one-third ($\frac{1}{3}$) the fall of the following season and one-third ($\frac{1}{3}$) the fall of the second season, so that a farmer who bought his machine in the spring of 1902 would pay one-third ($\frac{1}{3}$) of it in the fall of 1902, one-third ($\frac{1}{3}$) of it in 1903, and one-third ($\frac{1}{3}$) of it in 1904, or, in other words, he would have used the machine in three harvests before it was finally paid for. Excessive competition has extended this time until it frequently happens that a farmer has three years in which to pay for the machine after the season in which he purchased it. Competition has also brought about the undesirable feature of giving a farmer a year's time without interest when the crop conditions are unfavorable and he is not able to get full use out of his machine. It is also a custom to sell machines at the close of harvest on what are called "next

year's time" without interest. That is to say, that if a farmer purchased a harvester or reaper in September of 1902, he gives his note without interest until the fall of 1903, and at that time he pays one-third ($\frac{1}{3}$) cash, and one-third ($\frac{1}{3}$) each in the fall of 1904, 1905. The policy of extending this long credit has worked to the advantage of the McCormick Company in some ways by increasing sales, but if the collection departments of all the various companies were managed together, many improvements upon this system could be effected by shortening the length of credit and by making the examination of the paper taken in payment more rigid.

The collection department is managed from the central office, Mr. Alex Legge being the head of that department. He has an assistant and a force of clerks. The notes themselves when taken at the various general agencies are not sent to Chicago, but are kept by the general agents or the general collection agents at the branch offices throughout the country, records of the notes being sent to Chicago. The collection department, so far as records and correspondence are concerned, is managed entirely separately from the sales department, but the system of handling this on the field is not uniform. In some cases, the general agent who has charge of the sales also has charge of the collections, in his own district. Where this plan is in operation the general agent has under him a special assistant on the collections, and this assistant has charge of the detail work, referring all matters for decision to the general agent. Special collecting agents are employed, who confine their work to making the collections through the various towns in the district. They go directly to see the farmer and where possible they notify the farmer to go in to a certain town and meet them for the payment of the note. Recently the system of rating the paper before accepting it has been installed, and in this way the class of paper is found to be improved, and the work of the collection agency becomes easier. The rating of the paper is done usually by the collection department, and the parties who make the estimates upon the paper are usually a banker in the town and perhaps one of the merchants. In some cases, the sales department makes this rating. The line of organization on this point has not been very clearly drawn. Where the general agent has under his control both the sales department and collection department he works them more nearly together than in the case where a general collecting agent has separate charge of the collections. Frequently, the same man may be worked on collections for eight months of the year, and then be used for four months on sales or other work. This is usually where an exceptionally good man is employed and where the general agent does not wish to lose his services for the coming year, and consequently feels it best to employ him during the summer, in order to have his services during the fall. In case of many of the regular collectors they are kept busy nearly all the summer, getting securities for old claims and getting collections in shape for active work when the money begins to come in from August on. The books and records of the collection department at every general agency are kept entirely separate from those of the sales department. On ordinary questions the general agent or the general collecting agent has discretion, but he usually refers any important matter to the home office. In case of bringing suit

he refers the matter to the Chicago office if any judgment has to be exercised on the question.

In some of the districts presided over by general agents, a general collecting agent is installed in the same office with the general agent, but he is not under the direction of the general agent, and he reports to the collection department at Chicago. In such cases, the organization is kept quite distinct, although even here there is more or less assisting of one department by the other. The salaries of collectors are as a rule a little higher than those of salesmen, and the effort is to keep them as permanently employed as is consistent with the economical handling of the general agency.

The collection general agents make an annual settlement with the company every winter; in the same way that the general agents of the sales make their settlement, and all the notes are checked over and the accounts of the year. The collection agents remit direct to Chicago as rapidly as the money comes in. The expense for the maintenance of the collection department is remitted to them direct from Chicago. The decision as to whether or not to accept certain notes in payment of machines rests with the general agent or with the general collecting agent, whichever may be the head of the collection department in each territory.

The loss on bad paper is four per cent (4 per cent) or less making computation over a term of years. It is felt that the interest account accruing on these notes fairly equalizes this loss. The receipts from the collection department begin to come in strong in August and increase up to November and December, which are the heaviest months. From this time forward, they begin to decrease until by March they fall off to a small amount. This incident to the business necessitates the policy of borrowing during the summer months, as it has not been considered advisable to have enough capital in the business to carry the entire manufacturing season through the summer. If this were done, the amount of surplus would be so large that it could not be advantageously loaned or handled.

A bond to the sum of five thousand dollars (\$5,000) is required of all general collecting agents.

EXHIBIT 3.

AGREEMENT BETWEEN DEERING HARVESTER CO. AND WILLIAM C. LANE, JULY 28, 1902.

An agreement, made and entered into this 28th day of July, nineteen hundred and two, by and between the DEERING HARVESTER COMPANY, a copartnership consisting of Charles Deering, James Deering and Richard F. Howe (hereinafter called the "Vendor"), party of the first part, and WILLIAM C. LANE (hereinafter called the "Purchaser"), party of the second part.

Whereas the Vendor owns certain manufacturing properties located at Chicago, Illinois, and in Canada, and employed in the manufacture of harvesting machinery and other properties intended for use in connection therewith; and

Whereas the Purchaser desires to acquire said properties and intends, upon the acquisition of said properties, to sell, convey and

transfer the same to a corporation now existing or hereafter to be organized under the laws of the state of Illinois or other state (hereinafter called the "Purchasing Company"), with capital stock as hereinafter provided:

Now, this agreement witnesseth, that the parties hereto have agreed and covenanted as follows:

First. The Vendor agrees, for the considerations and upon the terms hereinafter stated, to sell, assign, transfer, convey and deliver unto the Purchaser, his nominee or assign, by good and indefeasible title free and clear of incumbrances, indebtedness and liabilities, except as herein stated, and the Purchaser agrees to purchase, all and singular the real estate, factories, plants, buildings, improvements, machinery, patterns, tools, apparatus, fixtures and appliances of the Vendor, and all the patents, inventions, devices, patent rights, licenses, trade-marks, trade-names and good-will of all and singular said property as a going concern, and also all of the products manufactured and in process of manufacture, materials, supplies and merchandise on hand at the time of closing said sale and all and singular its then pending contracts for the purchase of property or materials or the sale of product; also all other property of the Vendor appertaining to the Vendor's business aforesaid. There shall also be sold and purchased with said properties \$16,000,000 (at face value and accrued interest) of bills and accounts receivable representing sales made by the Vendor. Such bills and accounts receivable are to mature prior to March 1, 1905, and are to be guaranteed as hereinafter provided. Cash may be substituted for the whole or any part of such accounts and bills receivable at the option of the Vendor.

Second. The Vendor agrees that, as soon as practicable after the execution of this instrument, it will duly execute and acknowledge, and cause to be forthwith deposited with J. P. Morgan & Co., or a trust company designated by them, as depositary, proper deeds and other instruments of conveyance and sale for the granting, conveying and transferring as aforesaid unto the Purchaser and his assigns, all the property hereinbefore recited. Such depositary shall hold the said deeds and other instruments in escrow and deliver the same to the Purchaser or upon his order only upon receiving for account of the Vendor the consideration hereinafter provided, and upon the performance by the Purchaser of the provisions hereof.

Third. The Vendor agrees to deliver to said depositary as soon as practicable full statements in respect of its property and its assets and liabilities, its contracts for the purchase of materials and other property and for the sale of its manufactured products and otherwise relating to its property and business. The Vendor agrees that, pending the performance of and while this contract is in force, it will not, without the written consent of the Purchaser, or of said Purchasing Company, enter into any new contracts or assume any new obligations or make any purchases or sales except such as are necessary and customary in the ordinary conduct of its regular business or to maintain it as a going concern and except such as may be necessary for the performance of agreements already entered into; nor make payments in advance of their maturity on pending contracts. The Vendor further agrees that during and while this contract is in force, no new capital shall be employed in its business and no bonds issued, and that no mortgage, lease or conveyance shall be made upon or in

respect of its real estate or plant without the written consent of the Purchaser; and also that in case of any difference of opinion between the Vendor and the Purchaser in relation to the conduct of the business of the Vendor, such difference shall be decided by J. P. Morgan or George W. Perkins, whose decision shall be final. All service contracts of the Vendor taken over by the Purchasing Company shall be terminable on sixty days notice unless in specific cases otherwise determined by said Purchasing Company; and the Vendor shall indemnify the Purchasing Company against any claims under profit sharing contracts. In the case of any property delivered to the Purchaser by the Vendor which is subject to incumbrance, the amount of the incumbrance shall be deducted in determining the value thereof.

Fourth. The Purchaser and said Purchasing Company and his or its nominees, the appraisers, accountants and counsel, shall have the right to examine the deeds and other instruments of conveyance and transfer so to be deposited by the Vendor with the depositary as aforesaid, and shall, if the Purchaser shall so require, be furnished with abstracts of title, title deeds and surveys which may facilitate the examination of the title to the property to be conveyed or transferred, and shall have free access to all the deeds, contracts, books and records of the Vendor for the purpose of examining and verifying the statements made with respect to its property, business, assets, liabilities and status.

Fifth. The purchase price to be paid by the Purchaser to the Vendor for all and singular said property shall be the aggregate of the several appraisals and valuations hereinafter provided for and of said accounts and bills receivable and cash, if any, and shall be payable in full paid and non-assessable shares of the capital stock of the said Purchasing Company taken at par.

In order to make such appraisals and fix and determine such valuations, the property of the Vendor shall be classified as follows:

(1) Real estate, buildings, factories, warehouses, fixtures, machinery, tools, patterns, drawings, moulds and all other personal property used in connection with or appertaining to the Vendor's business and which is not intended for sale in the ordinary course of business or to form part of or to be consumed in the manufacture of the Vendor's products, and including pending contracts for purchase of real property and for construction of buildings or fixtures, but not including the property and contracts otherwise classified. The assets of this class are hereinafter collectively designated as "Plant."

(2) All materials on hand, manufactured, unmanufactured or in process of manufacture, including any and all articles intended to form part of or to be used in manufacturing the Vendor's product. The assets of this class are hereinafter collectively designated as "Materials on hand."

(3) Unexecuted contracts or orders for the sale of the Vendor's manufactured products, but not including contracts or orders for deliveries after the year 1902, for which latter contracts and orders (although to be transferred) no allowance shall be made. No allowance shall be made for contracts or orders for delivery prior to January 1, 1903, unless the material necessary for the completion of the machines or other manufactured products shall be in the possession of the Vendor and upon its plant at the time of the appraisal.

Such contracts are hereinafter collectively designated as "Pending Sales."

(4) All contracts heretofore entered into by the Vendor for the purchase of materials to be used in the manufacture of its product. Such contracts are hereinafter collectively designated as "Material Contracts."

(5) The coal, iron and steel properties of the Vendor, including its coal and iron lands, steel plant and blast furnaces, such property being hereinafter referred to as the "Deering Iron, Coal and Steel Properties."

(6) Patents, patent rights, devices, inventions, licenses, trademarks, trade-names and good-will, including the value of the established business, name, standing in the trade, stability of business, organization, trade and custom as a going concern. Such assets are hereinafter collectively designated as "Patents, Good-Will, etc."

The value of the plant, as above defined, shall be ascertained and determined by three appraisers, who shall fix the present value of such plant as a going concern. One of such appraisers shall be nominated and appointed by the Vendor, and the other two by J. P. Morgan & Co.

The present value to a going concern of said materials on hand, of the said pending sales, and of the said material contracts, as above defined, shall similarly be determined by three appraisers, one to be nominated and appointed by the Vendor and two by J. P. Morgan & Co. Such appraisers shall make allowance in their judgment for unprofitable contracts.

The value of the Deering Iron, Coal and Steel properties to a going concern, as above defined, shall be determined by J. P. Morgan or George W. Perkins.

The value of the patents and good-will shall, for the purposes of this contract, be a sum equal to the net profits of the Vendor during the two years ending November 30, 1902, as ascertained in the manner hereinafter provided, plus ten per cent. thereof; and to such amount shall be added the value of the name, standing in the trade, stability of business, organization, trade, custom, etc., of the Vendor as a going concern, which value shall be fixed by J. P. Morgan or George W. Perkins in his sole discretion.

The profits for said two years shall be ascertained and reported to J. P. Morgan & Co. by three accountants, one of whom shall be nominated by the Vendor and the other two by J. P. Morgan & Co. In calculating the net profits of the business, there shall be excluded all allowance for interest on bills and accounts receivable as well as the cost of collecting bills and accounts receivable, and all interest paid or payable on moneys used by the Vendor but belonging to any of the members of the Vendor or William Deering & Co. or William Deering or any member of his family. Said accountants, in calculating the net profits for said two years, shall make allowance for depreciation or loss, if any, on bills and accounts receivable, for depreciation or loss, if any, on materials on hand, and for depreciation, if any, of the said plant from wear and tear or otherwise. In each case hereinbefore enumerated, the decision, appraisal or report of a majority of the appraisers or accountants or the decision of J. P. Morgan or George W. Perkins (if sole arbitrator or appraiser),

as the case may be, shall be binding and conclusive upon the parties hereto.

Sixth. Payment of the amount of all contracts or orders for sales of manufactured products included as assets of the Vendor as aforesaid and transferred under this contract, shall be guaranteed to the satisfaction of J. P. Morgan & Co. by the Vendor and the net value thereof shall be appraised on that basis. Any and all accounts and bills receivable transferred by the Vendor hereunder shall be taken at their face value and accrued interest to date of transfer, but the Vendor shall guarantee and hereby does guarantee that the Purchaser or the Purchasing Company shall realize thereon such face value and interest accrued and to accrue and that said principal and interest shall all be received on or prior to the first day of March, 1905. The collections shall be made by the Purchasing Company, but the expenses of collection shall be borne by the Vendor. Pending such collections, the Vendor agrees to advance and pay to the Purchasing Company on demand, from time to time, on account of such guaranty such amounts as the board of directors of the Purchasing Company may determine to be necessary or convenient for the conduct of its business, but not in excess of such amounts as J. P. Morgan & Co. may from time to time approve. If such advance payments be made by the Vendor, then the Purchasing Company shall transfer to the Vendor or their nominees an equal amount in principal and accrued interest of uncollected accounts or bills receivable of the earliest maturities. The Purchasing Company may take such measures as to it may seem wise, for the collection of the accounts and bills receivable and grant extensions and indulgences to debtors by whom the same are payable without release of or prejudice to such guaranty or extension or change of the obligation of the Vendor to make payments as aforesaid. The Purchasing Company shall from time to time, on demand, furnish the Vendor a full statement showing which accounts and bills receivable remain unpaid, and what, if any, disposition has been made in regard thereto or steps taken to enforce the collection thereof.

The Vendor shall secure the guaranties in this article provided, by collateral or otherwise, to the satisfaction of J. P. Morgan & Co. in their discretion.

Seventh. The Purchasing Company shall have such corporate title, capital stock, organization, by-laws, directors and committees as may be approved by J. P. Morgan & Co. and shall have, in addition to materials on hand and inventories, a working capital of \$60,000,000 to be represented by cash or bills and accounts receivable guaranteed as aforesaid.

Eighth. The amount and the classes (if there be more than one class) of the capital stock of the Purchasing Company shall be determined after the ascertainment of the aggregate value of all its assets and properties, but such amount and such classes shall severally be satisfactory to J. P. Morgan & Co. If, however, there be only one class of stock, the capital stock shall not exceed \$120,000,000 par value, even though the aggregate value of the assets and properties of the Purchasing Company be in excess thereof. If there be both preferred stock and common stock, the preferred stock shall not exceed \$120,000,000 par value and shall entitle the holders to cumulative preferential dividends at the rate of but not to exceed

six per cent. per annum, with preference as to principal and accumulated dividends on dissolution or liquidation; and the common stock shall not exceed the remaining value of the corporate assets and properties as so determined, which value may be ascertained and determined irrespective of the special appraisals which are to be made under this agreement.

If there shall be two classes of stock, then and in that event the Vendor shall be entitled to receive as additional purchase price under this agreement common stock to an amount that shall bear to the total issue thereof the same proportion that the preferred stock to be received by the Vendor under this agreement shall bear to the total issue of preferred stock.

Ninth. The purchase provided for in this contract shall take effect as of such day in September, 1902, as shall be designated by the Purchaser with the approval of J. P. Morgan & Co.; the appraisals shall be made as of such date as nearly as practicable, and the performance of the contract shall be completed prior to January 1, 1903.

Tenth. The charter or certificate of incorporation or organization of the Purchasing Company shall provide, among other things, that the capital stock of the corporation shall not be increased or diminished except upon the affirmative vote or consent of the holders of at least two-thirds of each class of the outstanding capital stock of the company. Said charter or certificate may also provide that the stockholders may enter into a voting trust of their stock for a limited period. The charter or certificate shall likewise provide that no mortgage or lien upon the real property, plants, tools, or machinery of the Purchasing Company shall be created without the affirmative vote or the written consent of the holders of at least two-thirds of each class of the outstanding capital stock.

Eleventh. The Vendor undertakes and agrees that it or the holders of the stock of the Purchasing Company so to be issued in payment for the property to be transferred and conveyed under this agreement, shall deposit their stock with J. P. Morgan & Co. or a trust company to be designated by them, as depository, upon a voting trust, which shall provide, among other things, for the appointment of three voting trustees, one of whom shall be J. P. Morgan or George W. Perkins and the other two shall be persons appointed by J. P. Morgan & Co. The voting trust agreement shall be for the period of ten years with provision, however, that it may be terminated at any time after the expiration of five years upon ninety days notice, if a majority of the voting trustees shall so decide. The capital stock of the Purchasing Company shall be transferred to such voting trustees, who shall issue transferable certificates of beneficial interest entitling the holder to any dividends, distribution of profits and subscription rights which may accrue in respect of the stock so held by the voting trustees, and upon the termination of the voting trust entitling the holder to a proportionate amount of the stock so transferred to the voting trustees. The form, terms and provisions of the voting trust agreement shall be subject to the approval of J. P. Morgan & Co. The voting trust agreement shall contain adequate restrictions upon the voting power of the voting trustees in respect of an increase or diminution of capital stock, or the creation of any mortgage as aforesaid, so that any vote or consent by the voting trustees for any such increase or diminution, or mortgage, shall be

given only upon the affirmative vote or written consent of the owners of a corresponding amount of the voting trust certificates of interest outstanding.

The Vendor shall further agree with J. P. Morgan & Co. that during the first year after the issue of such stock or voting trust certificates, the Vendor shall own, and shall refrain from selling or otherwise disposing of at least eighty per cent. of the original holdings acquired under this agreement or otherwise; during the second year at least sixty per cent. of such original holdings; during the third year at least forty per cent. of such original holdings; and thereafter, and during the existence of the voting trust, at least one-third of such original holdings, provided, however, the Vendor may at any time after the expiration of the fourth year withdraw from the custody of J. P. Morgan & Co. and sell or otherwise dispose of, the remaining one-third of said original holdings, or any part thereof, but in such case any voting trustee representing such holdings shall immediately resign as trustee if desired by the two remaining trustees. A successor shall thereupon be appointed by the other two trustees.

As guaranty for the performance of the foregoing covenant not to sell or otherwise dispose of stock or voting trust certificates, the Vendor shall severally pledge with J. P. Morgan & Co. an amount of stock or voting trust certificates equal to the proportion which they have agreed to continue to own, which stock shall be released and delivered to them or upon their order from time to time as they may become entitled to sell; but, except as herein otherwise provided, one-third of the total original holdings as aforesaid shall remain pledged with J. P. Morgan & Co. during the existence of the voting trust.

In case during the first year after the issue of said stock by the Purchasing Company the Vendor shall desire to sell any of the stock or voting trust certificates which it is free to sell under the provisions hereof, it shall offer the stock to J. P. Morgan & Co. by notice in writing, specifying the amount of the stock and the price at which the same is offered, and the Vendor shall be entitled to sell such stock to others only in case J. P. Morgan & Co. shall not within twenty days thereafter purchase said stock at the price named in the notice or at a price satisfactory to the Vendor.

Twelfth. This contract, or any part thereof, may be transferred by the Purchaser to the Purchasing Company, and such Purchasing Company may thereupon enforce all and singular its terms and conditions as fully to all intents and purposes as if it were a party thereto. The place of performance of this contract shall be at the office of the Hudson Trust Company, Hoboken, New Jersey.

Thirteenth. The individual members of the Vendor shall jointly and severally guarantee the performance of this contract.

Fourteenth. The Purchaser undertakes to duly secure by contract the appointment of J. P. Morgan & Co. as the fiscal agents of the Purchasing Company and their acceptance of such appointment, in order that the Purchasing Company may secure and have the benefit and advantage of the advice of said firm in the management of its financial affairs.

If any dispute should arise under this contract as to its true intent or meaning, or in respect of the performance of any part thereof, whether between the parties hereto or between the Vendor and the

Purchasing Company, the matter in dispute in each and every case shall be left to J. P. Morgan or George W. Perkins as sole arbitrator, and the decision of such arbitrator shall be binding and conclusive upon the parties.

Fifteenth. In case any appraiser, arbitrator, accountant or voting trustee shall for any reason fail or cease to serve, then and in said event another or a successor shall be nominated and appointed in his place by the Vendor or by J. P. Morgan & Co. respectively as the case may be, subject, however, in the case of voting trustees to the provisions of the voting trust agreement.

References in this agreement to J. P. Morgan & Co. shall apply to that firm as now or hereafter constituted.

In witness whereof, the party of the first part and the party of the second part have hereunto set their hands and seals the day and year first above written.

DEERING HARVESTER COMPANY,
CHARLES DEERING, [SEAL.]
JAMES DEERING, [SEAL.]
By CHARLES DEERING,
Attorney-in-fact.
JAMES DEERING,
RICHARD F. HOWE, [SEAL.]
WM. C. LANE. [SEAL.]

EXHIBIT 4.

SUPPLEMENTAL AGREEMENT BETWEEN DEERING HARVESTER CO. AND WILLIAM C. LANE, AUGUST 11, 1902.

Supplemental agreement, made and entered into this 11th day of August, 1902, by and between the DEERING HARVESTER COMPANY (hereinafter called the "Vendor"), party of the first part, and WILLIAM C. LANE (hereinafter called the "Purchaser"), party of the second part.

The parties hereto have entered into an agreement, dated July 28, 1902, (hereinafter called the "Original Agreement"), providing for the sale by the Vendor to the Purchaser of the property of the Vendor as therein described. The parties hereto have agreed that said property shall be conveyed and transferred by the Vendor to the Purchaser forthwith and in advance of the determination of the exact purchase price of said property as in said Original Agreement provided.

Now, in consideration of the premises, the parties hereto have agreed and covenanted as follows:

First. The Vendor shall forthwith convey and transfer to the Purchaser all of the property described in the Original Agreement by instruments of conveyance which shall contain covenants of warranty and further assurance. The Vendor shall also forthwith assign and transfer to the Purchaser all of its accounts and bills receivable, and the same shall be subject to the provisions of the Original Agreement respecting the accounts and bills receivable to be transferred by the Vendor to the Purchaser as therein provided, but the Vendor shall

be entitled to substitute cash in place of any such accounts and bills receivable.

Second. The Purchaser shall cause to be prepared, as soon as practicable, a statement of the accounts and bills receivable assigned by the Vendor as herein provided, including such as may be received prior to the date in September which shall be fixed by the Purchaser with the approval of J. P. Morgan & Co. for the adjustment of the purchase price payable to the Vendor. If the aggregate of such accounts and bills receivable, at their face value and accrued interest, shall exceed the sum of sixteen million dollars (\$16,000,000), then the excess shall be held for the account of the Vendor, and shall be available to be applied by the Vendor towards any other payments that may be due by the Vendor to the Purchaser, or in such other manner as the Vendor shall direct.

Third. The capital stock of the purchasing company provided for in said contract shall be one hundred and twenty million dollars (\$120,000,000), but, prior to January 1, 1903, capital stock shall not be issued to an amount exceeding sixty-two and one-half ($62\frac{1}{2}$) per cent. of the aggregate amount of the money and cash assets acquired by said company and of the value of the other property acquired by said company, as such value shall be ascertained and fixed by the board of directors of the company at the time of the acquisition of such property.

Fourth. Forthwith upon the conveyance of said property by the Vendor to the Purchaser, the Purchaser shall deliver to J. P. Morgan & Co. stock trust certificates for such an amount of the capital stock of the purchasing company as shall, in the opinion of J. P. Morgan & Co., be required to provide the amount of stock trust certificates necessary for ultimate delivery to the Vendor in payment for the property, accounts and bills receivable and cash to be transferred and paid by it as herein and in the Original Agreement provided. J. P. Morgan & Co. are hereby authorized to deliver to the Vendor, from time to time, such amounts of the stock trust certificates so delivered as, in their opinion, it is proper to deliver to the Vendor. If after the final ascertainment of the amount of stock trust certificates to be delivered to the Vendor, as herein and in the Original Agreement provided, and after the delivery to the Vendor of such stock trust certificates, any of said deposited stock trust certificates shall remain on deposit with J. P. Morgan & Co., the same shall be returned to the Purchaser, but if the stock trust certificates on deposit with J. P. Morgan & Co. shall not be sufficient for the purpose of such delivery, then the deficiency shall be forthwith supplied by the Purchaser.

Fifth. The purchase price to be paid by the Purchaser to the Vendor for said property shall be ascertained as provided in the Original Agreement, and notwithstanding the immediate transfer and delivery of the property of the Vendor, the purchase shall, so far as the adjustment of the purchase price is concerned, be considered as taking effect as of such day in September, 1902, as shall be designated by the Purchaser, with the approval of J. P. Morgan & Co.; and, for the purposes of this contract and of the Original Agreement, the profits of the Vendor for the two years ending November 30, 1902, shall be ascertained in accordance with the provisions of the Original Agreement. The Purchaser shall cause separate accounts of the

business of the Vendor, when transferred to the purchasing company, to be kept so long as may be necessary for the purpose of ascertaining the profits thereof for the year ending November 30, 1902, and for the purpose of determining and apportioning the profits in accordance with the Original Agreement.

Sixth. The Original Agreement shall continue in force except as herein modified, and any questions arising under this Supplemental Agreement shall be determined by J. P. Morgan & Co. as sole arbitrators.

In witness whereof the Vendor has caused this agreement to be duly signed in the name of said firm, and the Purchaser has signed his name and affixed his seal hereto the day and year first above written.

In presence of:
JOSEPH P. COTTON,
TEMPLE BOWDOIN.

WM. C. LANE.
DEERING HARVESTER COMPANY,
CHARLES DEERING,
JAMES DEERING,
By CHARLES DEERING,
Attorney-in-fact.
RICHARD F. HOWE,
By CHARLES DEERING,
Attorney-in-fact.
JAMES DEERING.

EXHIBIT 5.

PROPOSITION FROM WILLIAM C. LANE TO INTERNATIONAL HARVESTER CO., AUGUST 12, 1902.

NEW YORK, *August 12, 1902.*

To the International Harvester Company:

I hereby offer to sell to you, upon the terms stated below the factories, plants, good-will and other property (excluding, except in the case of the Milwaukee Harvester Company, cash and receivables, for which provision is made below) of the following concerns engaged in the business of manufacturing and selling harvesting and agricultural machinery, tools and implements and allied products:

McCormick Harvesting Machine Company.

Deering Harvester Company.

Plano Manufacturing Company.

Warder, Bushnell & Glessner Co.

Milwaukee Harvester Company.

In the case of the Milwaukee Harvester Company, I offer all of its property as a going concern including its accounts and bills receivable, but subject to the payment of its debts and liabilities. The other properties are to be free of debt except in so far as encumbrances may exist upon certain parcels of real estate not occupied by manufacturing establishments. In the case of the Warder, Bushnell and Glessner Co. no accounts and bills receivable are offered.

The total aggregate price at which I offer said properties as going concerns is one hundred and thirty-two million dollars (\$132,000,000). I also agree to furnish you, in connection with, and in addition

to, said properties, sixty million dollars (\$60,000,000) of working capital, to be represented by accounts and bills receivable (exclusive of those of the Warder, Bushnell and Glessner Co. and the Milwaukee Harvester Company) received by said manufacturers in the ordinary course of business and guaranteed to your satisfaction, or in cash, or partly in such accounts and bills receivable and partly in cash, as I may elect.

I offer to accept for said property, money and receivables aggregating in value and amount one hundred and ninety-two million dollars (\$192,000,000), your entire capital stock, of the aggregate par value of one hundred and twenty million dollars (\$120,000,000), subject to an agreement that in case, prior to July 1, 1903, you determine to issue stock in addition to said one hundred and twenty million dollars (\$120,000,000) to represent the Company's surplus of sixty million dollars (\$60,000,000) or any part thereof, such additional stock be common stock and be issued to the holders of said one hundred and twenty million dollars (\$120,000,000) of original stock, *pro rata*, and that thereupon the latter stock shall be preferred stock, in accordance with the terms of your certificate of incorporation.

My offer is made upon condition that when I have provided conveyances of said property satisfactory to your board of directors and have provided the working capital of \$60,000,000, either in cash or in accounts and bills receivable guaranteed to the satisfaction of your board of directors, I shall be relieved of further responsibility in the premises and shall be deemed to have fulfilled my contract.

I enclose herewith, for your consideration in connection with this offer, drafts of the following papers:

1. A general conveyance by myself to the Company of the property and business of each of the manufacturers above named.
2. An assignment by myself to the Company of the accounts and bills receivable of each of said manufacturers.
3. A separate agreement with reference to the payment of said sum of sixty million dollars (\$60,000,000).
4. An agreement between the Company and myself providing that, in case the amounts collected upon the bills receivable of the respective manufacturers exceed the amounts in such agreement specified, the excess shall be paid to me or upon my order.

Yours truly,

WM. C. LANE.

W. C. LANE.

EXHIBIT 6.

RECOMMENDATION OF COMMITTEE OF BOARD OF DIRECTORS OF INTERNATIONAL HARVESTER CO. IN RE PROPOSITION OF WIL- LIAM C. LANE OF AUGUST 12, 1902.

AUGUST 13, 1902.

To the board of directors of the International Harvester Company:

The undersigned Committee, appointed to consider the proposition from William C. Lane to your Company, make the following report:

Your Committee have conferred with Mr. Lane and obtained from him further information regarding the value, earning capacity and

prospects of the properties mentioned in his proposition, and have also conferred with E. H. Gary, Esq., Chairman of the Executive Committee of the United States Steel Corporation, who for many years has been familiar with the harvester industry, having recently had occasion to inform himself regarding the present value and earning capacity of several of the properties.

Your Committee are of the opinion that the five properties mentioned in Mr. Lane's offer are the most important in their line of business in the United States, and that each of them has for several years enjoyed a prosperous, profitable and growing business. Each of the plants is believed to be in excellent condition and supplied with all the facilities necessary for effective manufacturing.

..... The combined sales of the five concerns are believed to be at a rate exceeding \$50,000,000 per year, and, with that amount of business, your Company should be able to earn a liberal return upon the capital and surplus which it would have in case of the acceptance of Mr. Lane's offer. Considering that under Mr. Lane's proposition the properties come as going concerns with current materials, stock in trade, and goods manufactured and in process of manufacture on hand, it is believed that \$60,000,000 of working capital will be ample for the needs of the Company, although not excessive, because of the long terms of credit which are customary in the harvester business.

Your Committee, therefore, report that the properties offered by Mr. Lane are, in their opinion, worth to this Company the sum of \$132,000,000, the price mentioned in Mr. Lane's offer, and they recommend their acquisition by the Company, together with the \$60,000,000, of working capital, at the aggregate price of \$192,000,000, payable by the issue of \$120,000,000 of the Company's capital stock.

Mr. Green of your Committee has examined the instruments of conveyance and draft of agreement which accompanied Mr. Lane's offer, and advises that they are in proper form.

Respectfully submitted.

ROLAND R. DENNIS,
GEORGE W. HEBARD,
ROBERT S. GREEN,
Committee.

EXHIBIT 7.

RESOLUTION OF INTERNATIONAL HARVESTER CO. ACCEPTING OFFER OF WILLIAM C. LANE, AUGUST 13, 1902.

Whereas, this Company has been organized for the purpose of manufacturing, selling and dealing in harvesting and agricultural machinery, tools and implements, and for the other purposes mentioned in its certificate of incorporation; and

Whereas, William C. Lane has submitted to the directors a proposition to sell to this Company the factories, plants, good-will and other property (excluding, except in the case of the Milwaukee Harvester Company, cash and bills and accounts receivable), of the following concerns engaged in the business of manufacturing and

selling harvesting and agricultural machinery, tools, implements and allied products;

McCormick Harvesting Machine Company.

Deering Harvester Company.

Plano Manufacturing Company.

Warder, Bushnell & Glessner Co.

Milwaukee Harvester Company; and

Whereas the aggregate price at which said properties are offered as going concerns is \$132,000,000; and

Whereas said William C. Lane has also offered to furnish the Company, in connection with, and in addition to, said properties, \$60,000,000 of working capital, in accounts and bills receivable (exclusive of those of the Milwaukee Harvester Company), received in the ordinary course of business by the McCormick Harvesting Machine Company, the Deering Harvester Company and the Plano Manufacturing Company, and guaranteed to the satisfaction of this company, or in cash, or partly in such accounts and bills receivable and partly in cash, as said William C. Lane may elect; and

Whereas said William C. Lane has agreed to accept, in payment for said properties valued at \$132,000,000, and for said \$60,000,000 of working capital, the entire capital stock of this Company, having an aggregate par value of \$120,000,000, subject to an agreement on the part of this Company that in case, prior to July 1, 1903, this Company shall determine to issue stock, in addition to said \$120,000,000, to represent any part of the Company's surplus of \$72,000,000, such additional stock be common stock, and be issued to the holders of said \$120,000,000 of original stock *pro rata*, and that the latter stock be preferred stock in accordance with the terms of this Company's certificate of incorporation; and

Whereas, after due deliberation the board of directors have determined that the properties offered by said William C. Lane, as above recited, at an aggregate valuation of \$132,000,000, are necessary for the business of this Company and are worth at least the said sum of \$132,000,000; and

Whereas, by resolution of the stockholders of this Company the directors have been authorized to receive subscriptions for its entire capital stock, and to sell all or any part thereof at par and issue the same in payment for said property; and

Whereas, said William C. Lane has submitted with his proposition drafts of various instruments of conveyance and an agreement intended to carry out the said proposition if accepted by this Company;

Resolved, that the said properties are necessary and desirable for the business and purposes of this Company, and that in the judgment of the directors the value of the same, exclusive of said working capital of sixty million dollars (\$60,000,000), is at least one hundred and thirty-two million dollars (\$132,000,000); further

Resolved, that this Company accept the proposition of said William C. Lane, and purchase from him said properties, and accept from him said working capital of sixty million dollars (\$60,000,000), upon the terms and conditions mentioned in said offer; further

Resolved, that the President of this Company is hereby authorized and directed to duly accept the conveyances, assignments and agreements to be executed by said William C. Lane, and to execute said

agreement on behalf of this Company and affix its corporate seal thereto, and that the Secretary is authorized and directed to attest the same, and that the officers of this Company are authorized and directed in all respects to carry out said agreement of the Company; further

Resolved, that the officers of this Company are authorized and directed to issue to said William C. Lane, or his nominees, certificates for one million two hundred thousand (1,200,000) shares of one hundred dollars (\$100) each, and having an aggregate par value of one hundred and twenty million dollars (\$120,000,000) of full-paid and non-assessable shares of this Company's capital stock, less the sixty thousand dollars par value thereof subscribed for by the incorporators, to which extent the amount to be paid by said Lane is reduced; further

Resolved, that the Treasurer of this Company is authorized and directed to enter upon the books of this Company said properties, other than said sixty million dollars (\$60,000,000) of working capital, at the value of one hundred and thirty-two million dollars (\$132,000,000), at which the same have been acquired by the Company, and to establish by proper entries a surplus account of seventy-two million dollars (\$72,000,000); further

Resolved, that the officers of this Company are hereby authorized and directed to from time to time execute and deliver such instruments, and do such further acts, as to them shall seem necessary or proper for the purpose of carrying these resolutions into effect.

Said resolutions having been seconded, were by vote unanimously adopted, all of the directors of the Company voting.

Upon motion all the papers submitted by Mr. Lane were ordered on file.

EXHIBIT 8.

INTERNATIONAL HARVESTER CO.: VOTING TRUST AGREEMENT BETWEEN WILLIAM C. LANE AND GEORGE W. PERKINS, CHARLES DEERING, AND CYRUS H. McCORMICK, VOTING TRUSTEES, DATED AUGUST 13, 1902.

This agreement, made in the City of New York this thirteenth day of August, one thousand nine hundred and two, by and between WILLIAM C. LANE, party of the first part, and GEORGE W. PERKINS, CHARLES DEERING and CYRUS H. McCORMICK (hereinafter called the "Voting Trustees"), parties of the second part,

Witnesseth as follows:

Whereas, the International Harvester Company (hereinafter called the "Company"), is a corporation organized under the laws of the State of New Jersey, with a capital stock of \$120,000,000, divided into 1,200,000 shares, of the par value of \$100 each, all of which stock has been issued and is outstanding; and

Whereas, the party of the first part has caused to be delivered to the Voting Trustees certificates for fully paid shares of the capital stock of the Company to the amount of its entire capital stock (excepting such shares as are necessary to qualify directors); and said certificates, together with such other certificates for stock of the

Company as hereafter, from time to time, may be delivered hereunder, are to be held and disposed of by the Voting Trustees under and pursuant to the terms and conditions hereof;

Now, therefore,

First. The Voting Trustees agree with the party of the first part, and with each and every holder of stock trust certificates issued as hereinafter provided, that, from time to time, upon request, they will cause to be issued to the party of the first part, or upon his order, in respect of said stock of the Company received from him, certificates in substantially the following form:

INTERNATIONAL HARVESTER COMPANY.

No. ———

——— Shares.

STOCK TRUST CERTIFICATE.

This certifies, that, as hereinafter provided, ———— will be entitled to receive a certificate or certificates for ———— fully paid shares of one hundred dollars each, of the capital stock of the International Harvester Company, and, in the meantime, to receive payments equal to the dividends, if any, collected by the undersigned Voting Trustees upon a like number of such shares standing in their names; such dividends, if received by the Voting Trustees in stock of said Company, to be payable in stock trust certificates. Until the actual delivery of such stock certificates, the Voting Trustees shall possess, in respect of any and all of such stock, and shall be entitled, in their discretion, to exercise, all rights and powers of absolute owners of said stock, including the right to vote for every purpose and to consent to any corporate act of said Company; it being expressly stipulated that no voting right passes by or under this certificate, or by or under any agreement expressed or implied.

This certificate is issued pursuant to, and the rights of the holder are subject to, and limited by, the terms and conditions of a certain agreement, dated the thirteenth day of August, 1902, by and between William C. Lane and the undersigned Voting Trustees.

Stock certificates shall be due and deliverable in exchange for stock trust certificates on, but not before August 1, 1912, unless a majority of the Voting Trustees elect, as they may, to terminate said agreement after August 1, 1907, upon not less than ninety days' notice.

This certificate is transferable only on the books of the Voting Trustees by the registered holder hereof, either in person or by attorney duly authorized, according to rules established for that purpose by the Voting Trustees, and on surrender hereof; and, until so transferred, the Voting Trustees may treat the registered holder as owner hereof for all purposes whatsoever, except that they shall not be required to deliver stock certificates hereunder without surrender hereof.

This certificate is not valid unless duly signed on behalf of the undersigned Voting Trustees by ————, their agents, and also registered by ————, as Registrar.

In witness whereof, the undersigned Voting Trustees have caused this certificate to be signed by their duly authorized agents, _____, this ____ day of _____, one thousand nine hundred and ____.

_____,
Voting trustees.
 By _____,
Their agents.
 By _____,
President.

Registered this ____ day of _____, 190—.

_____,
Registrar.
 By _____,
Secretary.

Second. At any time after August 1, 1907, if a majority of the Voting Trustees so decide, this agreement may be terminated; but at least ninety days' notice of an intention to terminate this agreement must be given by the Voting Trustees according to the provisions of Article Tenth hereof. This agreement shall in any event terminate on August 1, 1912, without notice by or action of the Voting Trustees. On August 1, 1912, or upon the earlier termination of this agreement, the Voting Trustees, in exchange for, or upon surrender of any stock trust certificate then outstanding, shall, in accordance with the terms hereof, deliver proper certificates of stock of the Company, and may require the holders of stock trust certificates to exchange them for certificates of capital stock.

In case on or after the termination of said agreement the Voting Trustees shall deposit with an incorporated bank or trust company of good standing, having an office in the City of New York, stock certificates properly endorsed for transfer in blank, representing stock of the Company to a par amount equal to the par amount of stock trust certificates outstanding, with authority in writing to such bank or trust company to deliver the same in exchange for stock trust certificates when and as surrendered for exchange as herein provided, then all further liability of said Trustees, or any of them, for the delivery of stock certificates in exchange for stock-trust certificates shall cease and determine.

Third. The term Company, for the purposes of this agreement and for all rights thereunder, including the issue and delivery of stock, shall be taken to mean the said corporation organized under the laws of the State of New Jersey, or any successor corporation or corporations into which the same may be consolidated or merged.

Fourth. From time to time hereafter, the Voting Trustees may receive any additional fully paid shares of the capital stock of the Company, and in respect of all such shares so received, will issue and deliver certificates similar to those above mentioned, entitling the holders to the rights above specified. In case the Company shall hereafter have both common and preferred stock the Voting Trustees may receive, subject to the provisions hereof, certificates representing fully paid stock of each class, and the stock trust certificates shall indicate upon their face whether they represent common or preferred

stock, and holders of stock trust certificates representing one class of stock shall have no interest in, or claim upon, stock of the other class. In any such event the stock trust certificates outstanding shall be surrendered by the holders thereof in exchange for new certificates specifying the class of stock, whether preferred or common, represented thereby. In case the Voting Trustees shall receive any stock of the Company issued by way of dividend upon stock held by them subject to said agreement, they shall hold such stock subject to the terms of said agreement, and shall issue stock trust certificates representing such stock to the respective registered holders of the then outstanding stock trust certificates entitled to such dividend.

Fifth. Any Voting Trustee may, at any time, resign by delivering to the other Trustees, in writing, his resignation, to take effect ten days thereafter. In case of the death or the resignation or inability of any Voting Trustee to act, the vacancy so occurring shall be filled by the appointment of a successor or successors, to be made as follows: Any successor in the line of succession to George W. Perkins shall be appointed by J. P. Morgan & Co., as said firm now is or may hereafter be constituted. Any successor in the line of succession to Charles Deering shall be appointed by James Deering, or in the case of his failure to act, by Richard F. Howe, and in case of the failure of either to act, by the other two Voting Trustees. Any successor in the line of succession to Cyrus H. McCormick shall be appointed by Harold F. McCormick, or in case of his failure to act, by Stanley McCormick, and in case of the failure of either to act, by the other two Voting Trustees. The term Voting Trustees, as used herein and in said certificates, shall apply to the parties of the second part and their successors hereunder.

Sixth. The Voting Trustees may adopt their own rules of procedure. The action of a majority of the Voting Trustees expressed from time to time at a meeting or by writing with or without a meeting, shall, except as otherwise herein stated, constitute the action of the Voting Trustees and have the same effect as though assented to by all. Any Voting Trustee may vote in person or by proxy, and may act as a director or officer of the Company.

Seventh. In voting the stock held by them, the Voting Trustees will exercise their best judgment from time to time to secure suitable directors, to the end that the affairs of the Company shall be properly managed, and in voting and in acting on other matters which shall come before them as stockholders or at stockholders' meetings, will likewise exercise their best judgment, but they assume no responsibility in respect of such management or in respect of any action taken by them or taken in pursuance of their consent thereto as such stockholders, or in pursuance of their vote so cast, and no Voting Trustee shall incur any responsibility by reason of any error of law or of any matter or thing done or suffered or omitted to be done under this agreement, except for his own individual willful malfeasance.

Eighth. The Voting Trustees possess and shall be entitled in their discretion to exercise, until the actual delivery of stock certificates in exchange for stock trust certificates, all rights and powers of absolute owners of said stock, including the right to vote for every purpose and to consent to any corporate act of said Company, it being expressly

stipulated that no voting right passes to others by or under said stock trust certificates or by or under this agreement, or by or under any agreement, expressed or implied; the Voting Trustees shall not, however, during the pendency of this agreement, vote in respect of the shares of the capital stock of the Company held by them, to authorize or consent to any mortgage or other lien upon the property of the Company, or (except as herein otherwise specifically provided) to authorize any increase or diminution in the amount of the authorized capital stock of said Company, except with the consent in each instance of the holders of stock trust certificates representing two-thirds in amount of each class of stock at the time deposited hereunder, given in writing, or by vote at a meeting called for that purpose; provided, however, that the Voting Trustees may, in their discretion, prior to July 1, 1903, without the consent of holders of any stock trust certificates, consent to and authorize the increase of the Company's capital stock to an amount not exceeding one hundred and eighty million dollars (\$180,000,000).

Ninth. For the purposes of this agreement any consent in writing by the holders of stock trust certificates may be in any number of concurrent instruments of similar tenor, and may be executed by the certificate holders in person, or by agent or attorney appointed by an instrument in writing. Proof of the execution of any such consent, or of a writing appointing any such agent or attorney, or of the holding by any person of stock trust certificates issued hereunder, shall be sufficient for any purpose of this indenture, and shall be conclusive in favor of the Voting Trustees with regard to any action taken by them under such consent, if made in the following manner, viz.: (a) the fact and date of the execution by any person of any such consent may be proved by the certificate of any notary public or other officer authorized to take, either within or without the State of New York, acknowledgements of deeds to be recorded in any State, certifying that the person signing such consent acknowledged to him the execution thereof; or by the affidavit of a witness to such execution. (b) the amount of stock trust certificates held by any person executing any such consent and the issue of the same, may be proved by a certificate executed by any trust company, bank or other depository (wheresoever situated) whose certificate shall be deemed by the Voting Trustees to be satisfactory, showing that at the date therein mentioned such person had on deposit with such depository, or exhibited to it, the stock trust certificates numbered and described in such depository's certificate.

Tenth. All notices to be given to the holders of stock trust certificates hereunder shall be given either by mail to the registered holders of stock trust certificates at the addresses furnished by such holders to the Voting Trustees or to the agents of the Voting Trustees, or by publication in two daily papers of general circulation in the City of New York, and in two daily papers of general circulation in the City of Chicago, twice in each week for two successive weeks; and any call or notice whatsoever, when either mailed or published by the Voting Trustees as herein provided, shall be taken and considered as though personally served on all parties hereto, including the holders of said stock trust certificates, and such mailing or publication shall be the only notice required to be given under any provision of this agreement.

Eleventh. This agreement may be simultaneously executed in several counterparts, each of which so executed shall be deemed to be an original, and such counterparts shall together constitute but one and the same instrument.

In witness whereof, the several parties have hereunto set their hands and seals, in the City of New York, the day and year first hereinabove mentioned.

WM. C. LANE.	[L. S.]	} <i>Voting trustees.</i>
G. W. PERKINS.	[L. S.]	
CHARLES DEERING.	[L. S.]	
CYRUS H. MCCORMICK.	[L. S.]	

STATE OF NEW YORK, }
County of New York, } ss.:

On this 13th day of August, in the year nineteen hundred and two, before me personally came William C. Lane, to me known, and known to me to be the individual described in and who executed the foregoing instrument, and he acknowledged to me that he executed the same.

[SEAL.]

JOHN P. TUOMEY,
Notary Public, Kings County.
 Certificate filed in N. Y. Co.

STATE OF NEW YORK, }
County of New York, } ss.:

On this thirteenth day of August, in the year nineteen hundred and two, before me personally came George W. Perkins, Charles Deering and Cyrus H. McCormick, to me known, and known to me to be the individuals described in and who executed the foregoing instrument, and they severally acknowledged to me that they executed the same.

[SEAL.]

JOHN J. DALY,
Notary Public, Kings County.
 Certificate filed in N. Y. Co.

EXHIBIT 9.

AGREEMENT BETWEEN CHARLES DEERING, JAMES DEERING, AND RICHARD F. HOWE AND WILLIAM C. LANE, MARCH 24, 1903.

Memorandum of agreement, made the twenty-fourth day of March, A. D. 1903, between CHARLES DEERING, JAMES DEERING and RICHARD F. HOWE (hereinafter called the "Vendors") parties of the first part, and WILLIAM C. LANE (hereinafter called the "Purchaser"), party of the second part.

The parties hereto entered into an agreement dated July 28th, 1902 (hereinafter referred to as the "Main Agreement"), and an agreement supplemental thereto (hereinafter referred to as the "Supplemental Agreement"), dated August 11, 1902.

In consideration of the premises and the covenants herein contained, the parties hereto have covenanted and agreed as follows:

I. Instead of three Boards of Appraisers, as provided in the Main Agreement (two of the said Boards being in said Main Agreement called the "Appraisers" and one the "Accountants"), only one board

or set of appraisers shall be appointed. The three members thereof shall be chosen in the manner provided in the Main Agreement respect—in the selection of Appraisers and Accountants. This single board shall determine all the questions and exercise all the functions which by the Main Agreement were provided to be determined and exercised by the three Boards of Appraisers above described.

The Board of Appraisers, however, shall not appraise the Deering coal, iron and steel properties mentioned in the Main and Supplemental Agreements, or any other property, which, by the terms thereof, are to be appraised by J. P. Morgan or George W. Perkins.

II. The two years' profits with reference to which the value of the patents and good-will of the Vendors shall be determined, shall be the profits for the two full business years, or seasons of 1901 and 1902, instead of those for the two years ending November 30th, 1902. This change is made because of the difficulty in determining at the present time the profits of the Vendors for the latter period.

III. The capital stock of the Purchasing Company referred to in the Main and Supplemental Agreements, or if there be more than one class of stock, then the preferred stock of the Company, shall be increased beyond the limit of one hundred and twenty million dollars (\$120,000,000) fixed by the Main Agreement, by an amount equal to the excess, if any, over fifty-three million dollars (\$53,000,000) of the aggregate value, to be determined as in the Main and Supplemental Agreements and herein provided, of the assets and property of the McCormick Harvesting Machine Company, the Deering Harvester Company, the Plano Manufacturing Company and The Warder, Bushnell & Glessner Company, acquired by the Purchaser as of September 30, 1902, *including* the patents and good-will and the value of "name, standing in the trade, stability of business, organization, trade, custom, etc.," but *excluding* bills and accounts receivable and cash. Any such additional capital stock shall have the same character (with respect to its being common or preferred and its right to stock dividends) as the one hundred and twenty million dollars (\$120,000,000) of capital stock provided for in the Main and Supplemental Agreements. The stock representing any such increase shall be subject to an agreement on the part of the Purchasing Company that it shall be issued only to pay for property acquired as aforesaid.

IV. In reaching their conclusion as to values and amounts the appraisers may consider as evidence the facts and information gathered by Jones, Caesar & Company and their reports thereon (including the inventories taken under the supervision of Jones, Caesar & Company) and may also consider the facts and information gathered by the American Appraisal Company and the Manufacturers Appraisal Company as well as their reports thereon; but such facts, information and reports shall not be regarded as evidence of any higher nature than any other facts or information which may be submitted to the appraisers by any party in interest; it being expressly understood that it shall be the duty of the appraisers to weigh all facts, information and reports so submitted to them and to give to all such facts, information and reports such weight as the appraisers, or a majority of them, shall, in the exercise of an independent, critical judgment, deem proper.

It is further understood that nothing in this agreement contained shall give the appraisers any jurisdiction or power in respect to appraising the value of any property or good-will which under the provisions of the Main and Supplemental Agreements aforesaid are subject to appraisal by J. P. Morgan or George W. Perkins.

V. This agreement shall be read in connection with the Main and Supplemental Agreements, and said agreements as supplemented and modified hereby shall continue in full force and effect.

In witness whereof, the said Charles Deering, James Deering and Richard F. Howe have hereunto set their own names and seals and the firm name of the Vendors and the said William C. Lane has hereunto set his hand and seal, the day and year first above written. Executed in duplicate.

CHARLES DEERING.	[SEAL.]
JAMES DEERING.	[SEAL.]
RICHARD F. HOWE.	[SEAL.]
WILLIAM C. LANE.	[SEAL.]

EXHIBIT 10.

AGREEMENT BETWEEN WILLIAM C. LANE AND J. P. MORGAN & CO., AUGUST 13, 1902.

An agreement, made and entered into in the City of New York on the thirteenth day of August, 1902, by and between WILLIAM C. LANE, party of the first part, and the firm of J. P. MORGAN & Co., parties of the second part.

The party of the first part has acquired and is entitled to receive and dispose of stock trust certificates representing a large amount of the full-paid and non-assessable shares of the capital stock of the International Harvester Company (hereinafter called the "Company"), a corporation organized under the laws of the State of New Jersey, with a capital stock of one hundred and twenty million dollars (\$120,000,000) divided into one million two hundred thousand (1,200,000) shares of one hundred dollars (\$100) each.

The party of the first part has entered into four several contracts, dated July 28, 1902, respectively with the McCormick Harvesting Machine Company, the Deering Harvester Company, the Plano Manufacturing Company, and the Warder, Bushnell and Glessner Co., each of which contracts provides for certain services to be rendered by the parties of the second part, and by J. P. Morgan or George W. Perkins, members of said firm.

The party of the first part desires to procure from the parties of the second part the sum of twenty-two million five hundred thousand dollars (\$22,500,000) in cash.

Now, this agreement witnesseth, that the parties hereto, for and in consideration of the premises, and of the agreements hereinafter recited, and of the sum of ten dollars (\$10) to each paid by the other, the receipt whereof is hereby acknowledged, have agreed and hereby do agree as follows:

First. The party of the first part agrees to sell, assign, transfer and set over unto the parties of the second part stock trust certificates representing twenty-five million five hundred thousand dollars

(\$25,500,000) par value of full-paid capital stock of the Company for the sum of twenty-two million five hundred thousand dollars (\$22,500,000) in cash, payable on demand, and in full payment for the said services rendered and to be rendered by the parties of the second part; and the party of the first part agrees that immediately upon the payment of said sum of twenty-two million five hundred thousand dollars (\$22,500,000) he will deliver to the parties of the second part, or upon their order, stock trust certificates representing said shares of stock, properly endorsed in blank.

Second. The parties of the second part will take from the party of the first part stock trust certificates representing shares of valid full-paid and non-assessable stock of the Company to the amount of twenty-five million five hundred thousand dollars (\$25,500,000) par value, as herein provided, and, upon receipt thereof, will pay to the party of the first part, or upon his order, twenty-two million five hundred thousand dollars (\$22,500,000) in cash.

Third. The party of the first part further agrees to pay to the parties of the second part any disbursements and expenses which they may incur in connection with the services to be rendered as hereinbefore provided, including the fees and expenses of any counsel, appraisers, and expert accountants employed by the parties of the second part.

Fourth. This agreement shall bind the executors and administrators of the party of the first part and the successors and assigns of the parties of the second part, whose engagement and rights hereunder are those of partners and are to be borne and enjoyed by the present firm of J. P. Morgan & Co. or any successor firm, however constituted.

In witness whereof, the party of the first part has hereunto set his hand, and the parties of the second part have caused these presents to be executed in their firm name, the day and year first above written.

In presence of:

WM. C. LANE. [SEAL.]
J. P. MORGAN & Co.

EXHIBIT 11.

AGREEMENT BETWEEN McCORMICK HARVESTING MACHINE CO., DEERING HARVESTER CO., THE WARDER, BUSHNELL & GLESSNER CO., PLANO MANUFACTURING CO., AND WILLIAM C. LANE AND INTERNATIONAL HARVESTER CO., AUGUST 17, 1903.

Agreement, made and entered into this seventeenth day of August 1903, between the McCORMICK HARVESTING MACHINE COMPANY, the DEERING HARVESTER COMPANY (a co-partnership), THE WARDER, BUSHNELL & GLESSNER COMPANY and the PLANO MANUFACTURING COMPANY (hereinafter collectively called the "Vendors" and severally called the McCORMICK, DEERING, CHAMPION and PLANO Companies, respectively), parties of the first part, WILLIAM C. LANE (hereinafter called the "Purchaser"), party of the second part, and the INTERNATIONAL HARVESTER COMPANY (hereinafter called the "International Company"), party of the third part.

Each of the Vendors and the Purchaser have entered into three certain agreements dated respectively 28 July 1902, 11 August 1902 and 24 March 1903. The Purchaser has transferred to the International Company all of the property and rights which he has received or to which he may be entitled under said contracts. The Purchaser has deposited with J. P. Morgan & Co. stock trust certificates representing Fifty-three Million Two Hundred Fifty Thousand (53,250,000) Dollars, par value, of the capital stock of the International Company, for the purpose of providing the purchase price payable to the respective Vendors under said contracts respectively, for the property (other than cash and accounts and bills receivable) transferred thereunder. The Purchaser has also deposited with J. P. Morgan & Co. stock trust certificates representing Forty Million (40,000,000) Dollars, par value, of the stock of the International Company for delivery to the McCormick, Deering and Plano Companies respectively, in the following amounts, as payments or collections are made upon the accounts and bills receivable of said three Vendors heretofore assigned by them respectively to the Purchaser, and by the Purchaser to the Company:

McCormick Company, Twenty Million (20,000,000) Dollars, par value.

Deering Company, Sixteen Million (16,000,000) Dollars, par value.

Plano Company, Four Million (4,000,000) Dollars, par value.

The appraisers provided for in said contracts have been duly appointed but have made no appraisals. The Vendors have, however, respectively agreed that the amounts to be received by them for their respective properties should be determined by George W. Perkins and the amounts hereinafter mentioned have been determined by said Perkins.

In consideration of the premises and other valuable consideration, the parties hereto have covenanted and agreed to and with one another as follows:

I. The appraisal of the property of the respective Vendors in the specific manner provided for in said contracts is hereby waived by the respective Vendors and by the Purchaser, who hereby agree with one another that said Vendors shall receive, and shall respectively accept, in full payment for the property (other than cash and accounts and bills receivable) transferred to the Purchaser and by the Purchaser to the International Company, pursuant to said contracts, or to which the International Company is entitled under said contracts and its contracts with the Purchaser, stock trust certificates for the following amounts respectively of the stock of the International Company, such amounts having been ascertained and determined as hereinbefore recited:

McCormick Company, Twenty-six Million, Three Hundred Twenty-one Thousand, Six Hundred Fifty-six and eighty-six hundredths (26,321,656.86) Dollars, par value.

Deering Company, Twenty-one Million, Three Hundred Sixty-two Thousand, Five Hundred Fifty-four and sixty-four hundredths (21,362,554.64) Dollars, par value.

Champion Company, Three Million, Three Hundred Seventy-two Thousand, One Hundred Eighty-five and ninety-one hundredths (3,372,185.91) Dollars, par value.

Plano Company, Two Million, One Hundred Ninety-three Thousand, Six Hundred Three and nine hundredths (2,193,603.09) Dollars, par value.

Said respective amounts shall in each case be inclusive of any stock trust certificates already delivered to any of the Vendors on account of the purchase price of property other than cash and accounts and bills receivable. Said stock shall be common stock of the International Company of a total issue of One Hundred and Twenty Million (120,000,000) Dollars, par value, and shall carry all rights to dividends since the organization of the International Company, whether payable in cash or in stock.

In addition to the stock trust certificates aforesaid, pursuant to the provisions of the contracts aforesaid and to the award of said George W. Perkins, it is provided as follows:

The International Company agrees to pay on account of indebtedness of the McCormick Company owed by the McCormick Company 30 September 1902 for property (other than cash and accounts and bills receivable) transferred by the McCormick Company to the Purchaser and by the Purchaser to the International Company, amounts with interest thereon as follows:

Eleven Thousand Five Hundred (11,500) Dollars with interest at the rate of five (5) per cent. per annum from 21 May 1902.

Four Thousand (4,000) Dollars with interest at the rate of five (5) per cent. per annum from 5 June 1902.

Sixteen Thousand Six Hundred Sixty-six and sixty-six hundredths (16,666.66) Dollars, without interest.

The International Company further agrees that so far as any portions of said indebtedness, principal or interest, have at any time been paid by the McCormick Company it (the International Company) will repay to the McCormick Company in cash on demand all amounts so paid by the McCormick Company, with interest thereon at the rate of five (5) per cent. per annum from the respective dates of payment thereof by the McCormick Company. The McCormick Company represents and guarantees that no other encumbrances (except current taxes and assessments) than the indebtedness aforesaid provided to be assumed and paid by the International Company existed 30 September 1902 against the aforesaid property of the McCormick Company; and represents and guarantees that the indebtedness aforesaid was *bona fide* indebtedness of the McCormick Company 30 September 1902.

The International Company further agrees to pay on account of indebtedness of the Deering Company owed by the Deering Company 30 September 1902 for property (other than cash and accounts and bills receivable) transferred by the Deering Company to the Purchaser and by the Purchaser to the International Company, amounts with interest thereon as follows:

Three Hundred and Fifty Thousand (350,000) Dollars with interest at the rate of five (5) per cent. per annum from 19 April 1902.

One Hundred and Fifty Thousand (150,000) Dollars with interest at the rate of five (5) per cent. per annum from 21 April 1902.

Five Thousand Three Hundred Forty-six and thirteen hundredths (5,346.13) Dollars with interest at the rate of three and one-half (3½) per cent. per annum from 22 April 1902.

Eleven Thousand Five Hundred Twenty-seven and forty-five hundredths (11,527.45) Dollars with interest at the rate of three and one-half ($3\frac{1}{2}$) per cent per annum from 30 October 1902.

Four Hundred Four Thousand, Two Hundred Twelve and sixty-three hundredths (404,212.63) Dollars, without interest.

The International Company further agrees that so far as any portions of said indebtedness, principal or interest, have at any time been paid by the Deering Company it (the International Company) will repay to the Deering Company in cash on demand all amounts so paid by the Deering Company, with interest thereon at the rate of five (5) per cent. per annum from the respective dates of payment thereof by the Deering Company. The Deering Company represents and guarantees that no other encumbrances (except current taxes and assessments) than the indebtedness aforesaid provided to be assumed and paid by the International Company existed 30 September 1902 against the aforesaid property of the Deering Company; and represents and guarantees that the indebtedness aforesaid was *bona fide* indebtedness of the Deering Company 30 September 1902.

The Champion Company and the Plano Company severally represent and guarantee that, 30 September 1902, no encumbrances whatever (except current taxes and assessments) rested upon any property by them respectively transferred to William C. Lane as aforesaid.

Each Vendor shall pay all indebtedness (owed by it either on general account or on account of any particular property sold by it to the Purchaser) except so far as is above in this contract otherwise provided.

The International Company further agrees to pay to each Vendor, in cash, the amount of the inventory of that Vendor's property in Australia transferred to the Purchaser and by the Purchaser to the International Company, less any amounts thereof included in figures heretofore prepared by or under the supervision of Jones, Caesar & Company; each such inventory, however, first to be certified by Jones, Caesar & Company and approved by the Finance Committee of the International Company.

The International Company further agrees to pay on demand to the Plano Company One Hundred Thousand (100,000) Dollars in cash.

II. J. P. Morgan & Co. shall forthwith deliver to the respective Vendors ninety (90) per cent. (including any stock trust certificates already delivered as aforesaid) of the stock trust certificates to which the Vendors are severally entitled as in the next preceding Article hereof provided. The balance of said stock trust certificates for the aggregate of \$53,250,000 shall remain on deposit with J. P. Morgan & Co. pending the delivery to the International Company by the respective Vendors of confirmatory deeds and certificates of title to their respective parcels of real estate, deliveries of the stock trust certificates reserved as aforesaid to be made to the respective Vendors upon the order of the International Company or upon the joint order of either Cyrus H. McCormick, Harold F. McCormick or Stanley McCormick and either Charles Deering, James Deering or Richard F. Howe, one McCormick and one Deering (or Howe) of those here named being hereby duly authorized to determine jointly

in their discretion when further deliveries of stock trust certificates reserved as aforesaid shall be made; in any event, however, each Vendor shall, upon delivery to the International Company of all confirmatory deeds and certificates of title above referred to, be entitled to immediate delivery of all of the stock trust certificates to which it is entitled under the provisions of this Contract.

III. The International Company is hereby substituted as to future transactions in the place of the Purchaser as the party of the second part under said contracts, and hereby agrees with the respective Vendors to carry out and perform the provisions of said contracts, as modified hereby, in the place and stead of the Purchaser; but (notwithstanding the provisions of this Article III) the Purchaser shall procure and deliver to the International Company, without delay, proper confirmatory deeds conveying to said Company or to its order the property transferred to him in August 1902 by the Vendors and by the Milwaukee Harvester Company, a Wisconsin corporation.

IV. The Vendors severally hereby accept the International Company as the party of the second part under said contracts in the place and stead of the Purchaser, and in consideration of such substitution hereby respectively release the Purchaser from any further liability under said contracts or any of them, or under any and all arrangements connected therewith or resulting therefrom including any unpaid expenses incurred by the Purchaser in carrying into effect the provisions of said contracts or otherwise incurred by the Purchaser in connection with the organization of the International Company; subject, however, to the provisions of the last clause of Article III above.

V. The International Company hereby accepts the arrangements now in force respecting the Sixty Million (60,000,000) Dollars of working capital which the Purchaser has agreed to furnish, as a full performance of the Purchaser's agreements in respect of working capital, and the Purchaser hereby transfers to the International Company all his claims against the McCormick, Deering and Plano Companies respecting the accounts and bills receivable which they have severally assigned to the Purchaser and which the Purchaser has assigned to the International Company, and the McCormick, Deering and Plano Companies severally agree with the International Company that the International Company is hereby substituted in place of the Purchaser in respect of said arrangements, the Purchaser being hereby released in respect thereof; and the International Company hereby agrees to carry out each and all of said arrangements.

VI. The International Company hereby releases the Purchaser from any and all liability of any kind whatsoever in respect of any and all contracts between the Purchaser and the International Company and any and all matters and things connected therewith or arising therefrom; subject, however, to the provisions of the last clause of Article III above.

In witness whereof the McCormick Harvesting Machine Company, The Warder, Bushnell & Glessner Company, the Plano Manufacturing Company and the International Harvester Company, have caused this instrument to be executed and their respective corporate seals to be hereunto affixed by their respective proper corporate officers, and the Deering Harvester Company and the members thereof and

William C. Lane have hereunto set their hands and seals, all as of the day and year first above written.

Executed in six (6) original parts.

McCORMICK HARVESTING MACHINE COMPANY. [SEAL.]

By CYRUS H. McCORMICK, *its President*.

Attest, the seal of said Company:

HAROLD F. McCORMICK, *its Secretary*.

DEERING HARVESTER COMPANY,

By CHARLES DEERING.

CHARLES DEERING. [SEAL.]

JAMES DEERING. [SEAL.]

RICHARD F. HOWE. [SEAL.]

THE WARDER, BUSHNELL & GLESSNER COMPANY. [SEAL.]

By J. J. GLESSNER, *its Vice President*.

Attest, the seal of said Company:

G. B. GLESSNER, *its Secretary*.

PLANO MANUFACTURING COMPANY, [SEAL.]

By W. H. JONES, *its President*.

Attest, the seal of said Company:

O. N. JONES, *its Secretary*.

WM. C. LANE. [SEAL.]

INTERNATIONAL HARVESTER COMPANY. [SEAL.]

By CYRUS H. McCORMICK, *its President*.

Attest, the seal of said Company:

RICHARD F. HOWE, *its Secretary*.

EXHIBIT 12.

AGREEMENT BETWEEN INTERNATIONAL HARVESTER CO. AND THE MILWAUKEE HARVESTER CO., SEPTEMBER 2, 1902.

Memorandum of Agreement made this 2d day of September, 1902, between the International Harvester Company, a corporation of the State of New Jersey (hereinafter referred to as the Manufacturing Company), party of the first part, and the Milwaukee Harvester Company, a corporation of the State of Wisconsin (hereinafter referred to as the Selling Company), party of the second part:

The Manufacturing Company is engaged in the business of manufacturing harvesting and agricultural machinery, tools and implements and twine and in selling its products in the United States of America and other countries.

The Selling Company is duly authorized by law to engage in the business of selling harvesting and agricultural machinery, tools and implements and twine. The Selling Company desires to enter into a contract with the Manufacturing Company for the purchase and sale of the former's products in the United States of America and elsewhere.

In consideration of the premises and agreements herein contained and other valuable considerations, the receipt whereof from each party is hereby acknowledged, the parties hereto covenant and agree as follows:

1. The Selling Company shall undertake the sale of the Manufacturing Company's products in the territory aforesaid and shall main-

tain such branch houses, warehouses and agencies and employes as shall be necessary to that end. The Selling Company shall do such advertising and take such measures as shall be necessary to exploit the sale of the Manufacturing Company's products.

The Selling Company shall purchase from the Manufacturing Company from time to time such of the Manufacturing Company's products as it requires to fill its orders and carry a sufficient stock at its various warehouses and branch houses.

All of the Manufacturing Company's products purchased by the Selling Company shall be purchased free on board the cars at the city in which is located the particular plant at which the products purchased were manufactured and all products so purchased and delivered shall be the property of the Selling Company.

The Manufacturing Company shall manufacture such harvesting and agricultural machinery, tools and implements and twine of the kinds heretofore manufactured by the plants of the Manufacturing Company, as well as of such other kinds as the parties hereto may agree upon, as the Selling Company shall require for its business and shall carry such a stock of the various kinds of machinery, tools and implements and twine as shall be necessary to meet the requirements of the Selling Company's business.

2. The prices to be paid by the Selling Company for the product of the Manufacturing Company purchased under the provisions of this contract shall be the following:

SCHEDULE.

The prices of any articles not expressly mentioned in this schedule shall be such as may be agreed upon by the General Manager of Manufacturing for the time being of the Manufacturing Company, and the General Manager of Sales for the time being of the Selling Company, or as may be otherwise fixed in any legal way. Settlements between the two companies shall be made not later than the first day of February in each year for the business of the preceding year. The Selling Company may make payments either in cash or in accounts and bills receivable received by it from its agents and customers, or partly in cash and partly in such accounts and bills receivable. The Selling Company hereby guarantees the payment at maturity of the principal of and interest upon all accounts and bills receivable so used in payment. In case any of such accounts and bills receivable are not paid at maturity the same may, at the option of the Manufacturing Company, be reassigned to the Selling Company and in such case the Selling Company shall pay the Manufacturing Company in cash the amount of principal of and interest accrued up to the time of such re-assignment upon the accounts and bills receivable so re-assigned.

The Selling Company further agrees that it will, without delay, take such action as shall be necessary in law for the changing of its corporate name from "Milwaukee Harvester Company" to "International Harvester Company of America."

This contract shall continue in force until October 1, 1903, and thereafter from year to year unless terminated by either party on any first day of October on at least thirty (30) days previous notice in writing to the other.

In witness whereof, the parties to this contract have caused their respective corporate names to be hereunto subscribed by their respective presidents and their respective corporate seals to be hereunto affixed, duly attested by their respective secretaries, all as of the day and year first above written.

INTERNATIONAL HARVESTER COMPANY,
By CYRUS H. McCORMICK, (Signed)
Its President.

Attest:

[SEAL.] RICHARD F. HOWE, (Signed)
Secretary.

MILWAUKEE HARVESTER COMPANY,
By GEO. P. MILLER, (Signed)
Its President.

Attest:

[SEAL.] ARTHUR W. FAIRCHILD, (Signed)
Secretary.

EXHIBIT 13.

AGREEMENT BETWEEN THOMAS M. OSBORNE AND EDWIN D. METCALF AND INTERNATIONAL HARVESTER CO., JANUARY 15, 1903.

Agreement, made this 15th day of January, 1903, between Thomas M. Osborne and Edwin D. Metcalf (hereinafter referred to as the "Vendors"), parties of the first part, and the International Harvester Company, a corporation of the State of New Jersey (hereinafter referred to as the "International Company"), party of the second part.

D. M. Osborne & Company is a corporation of the State of New York, with an authorized and issued capital stock of \$300,000, and having outstanding in addition thereto \$690,000 par value of stock scrip, which has been treated as entitling the holders thereof to the same rights as stockholders in respect of the assets and earnings of the company. Said company owns a manufacturing plant at Auburn, New York, and is engaged in the manufacture and sale of harvesting machinery and other farm implements.

The Columbian Cordage Company is likewise a corporation of the State of New York, and has an authorized and issued capital stock of \$300,000. It owns a plant for the manufacture of twine and rope at Auburn, New York, and is engaged in the business of manufacturing and selling twine and rope.

The real estate occupied by the plants of said companies is free from mortgage, and said companies respectively have free and unincumbered titles thereto.

D. M. Osborne & Company is hereinafter referred to as the "Osborne Company," and the Columbian Cordage Company as the "Columbian Company," and the two corporations together as the "Auburn Companies."

The Columbian Company is substantially free from debt. The Osborne Company has no mortgage or funded indebtedness, but has a floating debt of approximately \$2,500,000.

The International Company desires to acquire the capital stock of the Auburn Companies, and also all of the assets and business thereof, with certain exceptions hereinafter specified.

Now, therefore, this agreement witnesseth:

I. The Vendors hereby sell, and the International Company hereby purchases, all of the capital stock and all of the stock scrip of the Osborne Company and all of the capital stock of the Columbian Company. The Vendors will deposit with The Standard Trust Company of New York (hereinafter referred to as the "Trustee"), certificates endorsed for transfer in blank, representing all of said capital stock of the Auburn Companies, and also all of said stock scrip of the Osborne Company likewise endorsed in blank. The stock certificates and scrip so delivered shall be held by the Trustee as collateral security for the payment of the five-year notes of the International Company aggregating \$3,500,000, to be delivered to the Vendors as hereinafter provided.

II. Simultaneously with the execution of this agreement, the International Company shall deposit with the First National Bank of the City of New York the sum of one million dollars (\$1,000,000), which sum the said bank is hereby authorized to pay to the Vendors when the Vendors shall, on or before the 31st day of January, 1903, deposit with the Trustee at least ninety-five per cent. of each of said three classes of securities. The certificate of the Trustee as to such deposit may be accepted by said bank as conclusive evidence thereof. It is the expectation of the Vendors that all of each of said three classes of securities shall be deposited simultaneously, but in case any part (which shall not exceed five per cent. of the issue) of any of said three classes of securities shall not be deposited when said sum of \$1,000,000 is paid, the same shall be deposited on or before the said 31st day of January, 1903. The Trustee shall issue to the Vendors appropriate certificates of deposit describing the securities deposited hereunder.

III. The purchase price to be paid by the International Company for the stock and stock scrip purchased as herein provided is the sum of three million two hundred thousand dollars (\$3,200,000), and in addition thereto the actual cost (as hereinafter defined) of the supplies, materials on hand, manufactured products and goods in process of manufacture, which assets are hereinafter collectively referred to as the "Inventory Assets." Said purchase price shall be paid as follows:

(a) One million dollars (\$1,000,000) in cash as hereinbefore provided.

(b) Three million five hundred thousand dollars (\$3,500,000) by the delivery of negotiable notes of the International Company in such denominations as the Vendors shall designate, dated January 15, 1903, and maturing on, or at the option of the maker at any time before, January 15, 1908, and bearing interest at the rate of five per cent. per annum, payable semi-annually.

(c) The balance by notes of the International Harvester Company in such denominations as the Vendors shall designate, dated January

15, 1903, and maturing, with interest at five per cent. per annum, on, or at the option of the maker at any time before, November 1, 1903.

Of said \$3,500,000 of notes, \$2,200,000 thereof shall be delivered when all of said stock and stock scrip shall have been deposited with the Trustee hereunder. The remainder of said notes and such additional notes, if any are to be given, shall be delivered when the inventory herein provided for shall have been delivered by the Vendors to the International Company. If the aggregate amount of such inventory shall be less than one million three hundred thousand dollars (\$1,300,000), there shall be a proportionate reduction in said payment of \$3,500,000.

The five-year notes of the International Company to be given the Vendors as herein provided shall be negotiable notes substantially in the form hereto annexed [omitted from this exhibit] and marked "Form of note."

IV. The Vendors shall be entitled to cause the Auburn Companies to transfer, deliver and pay to the Vendors, and to exclude from the sale herein provided for, the following property:

(a) Except as hereinafter otherwise provided, all of the cash and accounts, claims and bills receivable of the Auburn Companies as of January 15, 1903.

(b) All lands owned by either of said companies located elsewhere than at Auburn which have been received in payment or settlement of debts incurred in the conduct of the business and which form no part of the premises occupied and used by either of the companies in connection with its business.

(c) The warehouse properties of the Osborne Company located, respectively, at Minneapolis, Chicago and St. Louis.

(d) All of the tarring machinery in the factory of the Columbian Company, and all of the machinery therein or under contract for delivery, which is designed especially for use in making and handling rope and not intended for use or in fact used in making or handling twine.

The property described in this paragraph is hereinafter referred to as the "Reserved Property."

V. The Vendors shall also be entitled, for a period of one year from February 15, 1903, to use, for the purpose of making rope, two hundred (200) of the six hundred (600) spindles now installed in the factory of the Columbian Company and a proportionate part of the preparing machinery, and during such period shall be entitled to carry on in said factory the business of manufacturing rope and tarring yarn with such machinery now installed or under contract for delivery, and so long as they shall so use such factory they shall pay to the Columbian Company a proportion of the entire expense for power, light and heat for the factory, based on their use of the factory. The Vendors shall take over at cost a proportionate part of the stock of hemp on hand or contracted for, based on the consumption of hemp in the rope business of the Columbian factory as compared with its aggregate business.

VI. The Vendors shall deliver to the International Company as soon as practicable, an inventory as of January 15, 1903, showing the actual cost of the Inventory Assets to the Auburn Companies. In the case of raw materials, the term "actual cost" shall mean the

actual cost to the Osborne or Columbian Company, as the case may be, delivered at the factory or at any other place to which the raw materials may have been delivered in connection with the company's business; and in the case of manufactured products, the term "actual cost" shall mean factory cost, to which freight and transportation shall be added in the case of goods situated elsewhere than at Auburn, and in the case of goods in foreign countries, the shipping charges and duties shall be added. In the case of machines and other items in the inventory which are not current, proper deductions shall be made for depreciation. In the factory cost shall be included a proper amount for general factory expenses, but no allowance for the cost of selling. The Vendors hereby guarantee the accuracy of said inventory and of the valuations and costs therein stated. One or more persons appointed by the International Company may take part in the making of said inventory. If any question shall arise in connection with the inventory it shall be referred for final decision to three persons, one chosen by the Vendors, one by the International Company, and the third by the two persons so chosen.

VII. The Vendors agree that when said sum of \$1,000,000 shall have been paid to them as herein provided, they will, from time to time, provide such resignations of directors and officers of the Auburn Companies as shall be requested by the International Company, and secure the election, to the vacancies caused by the acceptance of any such resignations, of such persons as shall be designated by the International Company. The responsibility of the Vendors in respect of the election of additional directors shall cease in the case of either of said companies when a majority of its board of directors shall be persons nominated by the International Company.

VIII. The International Company shall have the option and right until and including March 15, 1903, to purchase the three warehouses of the Osborne Company located respectively at Minneapolis, Chicago and St. Louis, and in case of the exercise of such option by notice in writing, the Vendors shall cause said warehouses and the real estate upon which they are located to be deeded and delivered to the Osborne Company upon receiving the sum of one hundred and sixty-five thousand dollars (\$165,000) in cash. In such case the Vendors shall cause to be conveyed, in the case of the St. Louis and Chicago warehouses, a clear and unincumbered title to the real estate upon which they are located and in the case of the Minneapolis warehouse the leasehold interest of the Osborne Company.

IX. The Vendors shall be entitled to use the name "Columbian" or "Columbian Cordage Company" in connection with the manufacture and sale of rope, but in case the International Company should hereafter purchase the rope business reserved by the Vendors, then the right to use the names "Columbian" and "Columbian Cordage Company" in connection with the manufacture and sale of rope shall pass to the International Company, or to such persons or corporations as it shall designate.

X. The Vendors assume, and hereby agree to indemnify the Auburn Companies and the International Company against, all debts, claims, demands and liabilities of the Auburn Companies or either of them, as of January 15, 1903. In the case of uncompleted contracts, the liability shall be apportioned as of said 15th day of Jan-

uary, 1903, between the Vendors and the Auburn Companies, the intention being that the Vendors assume all risk and liability properly apportionable to the business of the Auburn Companies prior to said date, the Auburn Companies continuing to be liable for all liabilities apportionable to the business subsequent to said date. The Vendors covenant and guarantee that neither of the Auburn Companies have any contracts (including those relating to the rope and tarring business of the Columbian Company) except such as have been made in the ordinary course of business.

As security for the performance by the Vendors of their agreements in this paragraph contained, the Vendors shall deposit with the First National Bank of the City of New York one million dollars (\$1,000,000) of said notes of the International Company, to be held by said bank until the indebtedness of the Auburn Companies (existing on January 15th, 1903, for which the Vendors are liable, in accordance with the terms of the preceding paragraph) has been reduced to one million dollars (\$1,000,000), whereupon said notes shall be delivered to the Vendors. Said bank may accept the certificate of the Vendors and of the Treasurer of the Osborne Company as conclusive evidence of the amount of such debt unpaid. The Osborne Company shall be entitled to retain its accounts and bills receivable as further security for the payment of the indebtedness of the Osborne Company, and, except as hereinafter otherwise provided the assignment thereof herein provided for shall not become effective until said indebtedness has been substantially paid.

XI. The Vendors covenant and guarantee that the Auburn Companies have respectively good and valid titles, free from incumbrance, to all of the real estate occupied by their factories and appurtenant buildings in Auburn, New York.

XII. The International Company shall cause the Auburn Companies to attend to the collection of said accounts and bills receivable under the direction of such officers or persons as shall be designated by the Vendors, and the Auburn Companies shall be reimbursed for the actual cost of making such collections. The collections on account of said accounts and bills receivable of the Columbian Company shall be paid to the Vendors as received. The collections on account of the bills and accounts receivable of the Osborne Company shall be applied to the payment of the debts of the Osborne Company, for which the Vendors are liable under the provisions of Section X hereof, under the direction of the Vendors. When the debts of the Osborne Company, for which the Vendors are liable under the provisions of Section X hereof shall have been reduced below \$1,000,000, the Vendors may require the Osborne Company, from time to time, to assign all of the uncollected accounts and bills receivable excepting an amount thereof exceeding by 25% the unpaid debts of the Osborne Company for the payment of which the Vendors are liable; but in such case the International Company may select the accounts and bills receivable which shall be retained for the purpose of securing the payment of such debts.

XIII. The Vendors agree that from and after the date hereof the business of the Auburn Companies shall be managed by the present directors and officers of the Auburn Companies (so long as they shall remain in control of said business), without any departure from the

ordinary course of business and in consultation with the officers of the International Company. The International Company agrees that in case a majority of the directors of said companies shall be persons of its choice, the plants of the Auburn Companies shall be carefully maintained, and their assets shall not be dissipated or wasted. So long as the unpaid notes of the International Company issued hereunder shall exceed three million dollars (\$3,000,000), the factories in Auburn shall be kept in operation to their reasonable capacity according to the conditions which shall, from time to time, prevail in the various lines of business in which said companies are engaged, and without the diversion of business from said factories. The International Company also agrees to advance to the Auburn Companies such moneys as shall be necessary to keep them supplied with working capital, and also agrees that no mortgage shall be placed upon the plants of either of said companies. All the covenants of this paragraph shall cease to be binding upon the International Company when all of its said note shall have been paid.

XIV. The International Company is hereby granted the option until and including March 1, 1903, to purchase the rope and tarring machinery and business hereinabove reserved, for the sum of two hundred and fifty thousand dollars (\$250,000), and in case of such purchase, the International Company shall assume, or cause the Columbian Company to assume, the contracts incident to said rope business, and shall also purchase, or cause the Columbian Company to purchase, the supplies, materials and goods manufactured and in process of manufacture incident to said business, at prices to be determined in the same manner as is provided in Paragraph VI hereof for determining the prices for the "Inventory Assets" of the Auburn Companies. The International Company may, if it shall so elect, instead of purchasing said rope and tarring machinery business as an entirety, purchase and acquire such an interest as it shall designate, not exceeding one-half, in the stock of a corporation to be organized by the Vendors to acquire said rope and tarring machinery and business, the basis of the capitalization of such company to be two hundred and fifty thousand dollars (\$250,000) for said machinery and good will and in addition thereto an amount of stock equal to the value of the supplies, materials and goods manufactured and in process of manufacture incident to said business, determined as hereinbefore provided, and such additional capital as the Vendors may deem necessary. Such corporation if organized shall take over said rope and tarring business as a going concern.

XV. In consideration of the purchase herein provided for, each of the Vendors covenants and agrees with the International Company and with each of the Auburn Companies that he will not for a period of ten years from the date hereof engage in, or become connected with or interested in as officer, employe, or otherwise, any business of manufacturing or selling harvesting machinery and other agricultural implements, or binder twine (except that of the International and Auburn Companies), in any part of the United States, excepting the states of Arizona and New Mexico, or in Australia or South America, or in any European countries, excepting Holland and Belgium. In case the International Company elects to purchase, or to cause the Columbian Company to purchase, the rope and

tarring business reserved to the Vendors as herein provided, then the covenants of this paragraph shall apply to the business of manufacturing and selling rope and tarring yarn. Each of the Vendors shall, if the International Company shall so request, enter into contracts with both of the Auburn Companies containing substantially the covenants of this paragraph. In case the International Company should fail to pay said notes and said collateral security for their payment should be sold as the result of such default, then the Vendors shall be released from the covenants of this paragraph.

XVI. All notices under or in reference to this agreement may be mailed to the Vendors at Auburn, New York, and to the International Company at its office in the City of Chicago, and any notice so mailed shall be deemed to have been duly given. The obligation of the Vendors under this agreement shall be joint and several and shall bind their respective heirs, executors and administrators.

In witness whereof, The International Company has caused this instrument to be executed and its corporate seal to be hereunto affixed by its proper officers, and the said Thomas M. Osborne and the said Edwin D. Metcalf have hereunto set their hands and seals the day and year first written above.

(Signed) THOMAS M. OSBORNE. [SEAL.]
(Signed) EDWIN D. METCALF. [SEAL.]

INTERNATIONAL HARVESTER COMPANY,
(Signed) By GEO. W. PERKINS,
Chairman Finance Committee.

(Signed) RICHARD F. HOWE, *Treasurer.*

EXHIBIT 14.

MCCORMICK HARVESTING MACHINE CO.: PRELIMINARY BALANCE SHEET CLOSE OF 1901 SEASON, SEPTEMBER 30, 1901.

			Increase or decrease compared with previous year— increase, roman; decrease, italics.
ASSETS.			
Reaper works:			
Land.....	\$518,194.88		
Buildings.....	2,172,426.40		\$199,968.68
Machinery.....	950,009.97		172,729.76
	\$3,640,631.25		\$372,698.44
Twine mill:			
Land.....	111,002.20		
Buildings.....	675,033.12		345,483.22
Machinery.....	499,170.78		237,856.60
	1,285,206.10		583,339.82
General office:			
Land and buildings.....	268,366.15		5,058.86
Furniture and fixtures.....	16,257.69		5,712.45
	284,623.84		10,771.31
General agencies:			
Warehouses.....	805,677.99		69,046.22
Equipment.....	103,311.66		53,311.66
	908,989.65		122,357.88
Farm and other R. E.....	143,619.95		19,455.39
Patents.....	308,300.00		70,130.08
Deferred charges to P. & L.....	19,473.79		\$8,610.52

McCORMICK HARVESTING MACHINE CO.: PRELIMINARY BALANCE SHEET CLOSE OF
1901 SEASON, SEPTEMBER 30, 1901—Continued.

		Increase or decrease compared with previous year— <i>increase, roman; decrease, italics.</i>	
ASSETS—continued.			
Stocks and bonds:			
Stocks.....	\$24,416.27	\$70.00	
Bonds.....	1,000.00		
	<u>\$25,416.27</u>		<u>\$70.00</u>
Cash.....	1,274,549.08		530,728.76
Accounts receivable:			
General agents.....	7,463,173.78	2,729,219.06	
Foreign.....	2,450,286.22	539,063.85	
Miscellaneous.....	113,419.36	331,568.47	
	<u>10,026,879.36</u>		<u>2,936,724.44</u>
Bills receivable:			
Local agents.....	1,273,678.23	138,565.82	
Special.....	279,400.18	182,616.25	
	<u>1,553,078.41</u>		<u>321,182.07</u>
Reaper notes:			
1880.....	12,934.09	4,234.24	
1881.....	16,824.39	6,359.15	
1882.....	32,937.81	10,718.50	
1883.....	52,214.66	13,477.99	
1884.....	54,511.73	19,288.66	
1885.....	50,068.26	14,414.30	
1886.....	34,797.84	9,115.03	
1887.....	59,236.60	11,665.09	
1888.....	68,950.99	16,637.00	
1889.....	72,511.74	17,715.50	
1890.....	94,674.77	22,663.86	
1891.....	116,274.41	28,742.51	
1892.....	215,630.23	49,591.11	
1893.....	201,554.05	50,697.19	
1894.....	167,426.30	45,201.32	
1895.....	264,242.18	89,171.75	
1896.....	289,722.58	149,012.08	
1897.....	372,588.44	409,963.73	
1898.....	897,982.24	1,479,580.15	
1899.....	2,454,095.95	2,976,967.45	
1900.....	5,635,969.15	2,184,736.41	
1901.....	8,612,079.06	8,612,079.06	
	<u>19,777,227.47</u>		<u>1,002,126.04</u>
Inventories:			
Reaper works.....	3,861,067.22	386,309.81	
Twine mill.....	715,336.53	59,905.07	
General agencies.....	1,779,167.38	481,991.99	
	<u>6,355,571.13</u>		<u>154,587.25</u>
Cash advances.....	390,437.86		<u>589,176.72</u>
	<u>45,994,004.16</u>		<u>5,348,158.96</u>
LIABILITIES.			
Bills payable:			
Short time.....	5,133,333.33	733,333.33	
Long time.....	2,492,705.00	200,000.00	
	<u>17,626,038.33</u>		<u>533,333.33</u>
Accounts payable:			
Loans.....	948.00	508,842.84	
Merchandise, etc.....	411,864.69	109,198.35	
	<u>412,812.69</u>		<u>599,644.49</u>
Special dividends (S. McC.).....	300,000.00		300,000.00
Dividend No. 15.....	100,000.00		100,000.00
Total liabilities.....	<u>8,438,851.02</u>		<u>533,688.84</u>
Capital stock.....	2,500,000.00		
Surplus, close of 1900 season.....	30,240,683.02		
Estimated net gain, 1901 season.....	4,514,470.12		
Contribution to surplus.....	300,000.00		
Surplus, close of 1901 season.....	<u>35,055,153.14</u>		<u>4,814,470.12</u>
	<u>45,994,004.16</u>		<u>5,348,158.96</u>

At January 14, 1902, bills payable were reduced to \$1,809,371.66.

EXHIBIT 15.

McCORMICK HARVESTING MACHINE CO.: PROFIT AND LOSS, SEASON 1901.

	Sales.	Cost.	Expense.	Profit.
Machines.....	\$17,329,090.22	\$7,430,958.33	{ \$6,187,293.85 140,324.67 16,010.07 }	{ \$4,805,871.63 483,977.68 -294,397.73 }
Hayrakes.....	1,127,640.45			
Grinders.....	123,727.88			
Repair parts and covers.....	1,085,794.16	480,068.07	118,748.41	483,977.68
Twine and rope.....	3,679,804.09	3,671,857.41	302,344.41	-294,397.73
Totals.....	23,346,056.80	11,582,883.81	6,764,721.41	4,998,451.58
Earnings from other sources:				
Interest (R/N B. rec. and accts.)...	754,364.58			
Hemp investment.....	55,441.17			
Real estate—				
Agencies—Net earnings.....	29,224.33			
Gen'l office—Net earnings.....	617.59			
Farms, etc.—Net earnings.....	845.06			
Rental of Illinois Northern Railway.	15,000.00			
Royalties.....	21,532.50			
Implement profits (general agents)...	6,505.44			
F. Craycroft—Insurance.....	1,380.25			
Collecting commissions (C. H. & L. J. McC.).....	1,111.51			
Foreign agency earnings.....	13,236.85			
Profit and loss—Direct credits—				
Worthless notes, re-				
instated.....	\$136.04			
Worthless accounts,				
reinstated.....	542.56			
Worthless accounts,				
foreign, reinstated.....	411.30			
Gain on sales of farm				
lands.....	3,787.32			
Gain on sales of				
agency warehouses.....	20,291.43			
Gain on sales of				
scrap.....	221.87			
Surplus in bank.....	122.04			
Profit on implement				
sales.....	1,179.83			
	26,692.39			
Total of earnings from other sources.....				925,951.67
Losses, expenses, etc.:				5,924,403.25
Chicago office.....	376,759.29			
Interest and discount.....	223,361.10			
Collection expense.....	516,255.56			
Loan expense.....	22,584.28			
Fire losses.....	32,461.28			
Patent expense.....	10,084.03			
Buffalo exposition.....	694.49			
Field work.....	3,760.82			
Bridge account.....	135.00			
Emergency donation a/c.....	1,401.72			
James McPhail, foreign exp. a/c.....	689.25			
Profit and loss—Direct charges—				
Worthless notes... \$183,828.95				
Worthless ac-				
counts agency..	15,282.61			
Worthless ac-				
counts, foreign..	134.25			
Worthless ac-				
counts, office....	2,848.68			
Claims and dam-				
ages.....	1,601.35			
Money lost in tran-				
sit.....	20.00			
Special commis-				
sions, etc.....	34.30			
Loss on sale of farm				
lands.....	2,904.57			
	206,654.71			
Total of losses, expenses, etc.....				1,394,741.53
Net earnings, season 1901.....				4,529,661.72

EXHIBIT 16.

McCORMICK HARVESTING MACHINE COMPANY: GENERAL BALANCE SHEET, SEPTEMBER 30, 1902.

ASSETS.

Property and plant:

Cook County real estate—

Reaper works, real estate.....	\$1, 150, 356. 29
Twine mill, real estate.....	129, 502. 20
Other real estate (Schedule 1).....	61, 290. 63

Buildings, improvements, machinery, etc.—Reaper works (Schedule 2).....	\$1, 341, 149. 12
Buildings, improvements, machinery, etc.—Twine mill (including flax experimental, \$49,815.35) (Schedule 3).....	4, 189, 417. 84

Powers building, real estate leases (Schedule 4).....	1, 656, 440. 28
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Powers building, buildings and equipment (Schedule 4).....	20, 000. 00
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General agencies—Land, buildings, and equipment (Schedule 5).....	279, 872. 08
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Farms and other real estate (exclusive of Cook County real estate).....	1, 176, 306. 11
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Timber and timberlands (Schedule 6).....	52, 682. 35
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Patents.....	314, 950. 65
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.....	354, 249. 39
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Total property and plant.....

\$9, 385, 067. 80

Inventory—Raw material, finished product, etc.:

Raw material, work in progress, etc., at reaper works.....	\$5, 254, \$28. 18
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Raw material, work in progress, etc., at twine mill and out-side mills.....	255, 162. 84
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Completed machines.....	5, 509, 991. 02
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Repair parts.....	3, 014, 125. 50
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Twine.....	870, 533. 47
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.....	893, 953. 86
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Total inventory—Raw material, finished product, etc.....

10, 288, 603. 85

Other inventory items:

Inland freight (from Chicago to seaboard on foreign machines).....	36, 311. 32
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Advertising, season 1903.....	3, 220. 20
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Total, other inventory items.....

39, 531. 52

Advances for construction and operation of Mosher sawmill (Schedule 7).....

121, 016. 31

(\$11,738.31 not transferred a/c to be adjusted between I H Co Mc Co & W. C. Lane.)

Investments—Hemp and hemp lands:

(?) B. P. Clark, trustee.....	75, 000. 00
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Compania Industrial de Baja (California).....	111, 023. 13
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Total investment hemp and hemp lands.....

186, 023. 13

Investments—Stocks and bonds:

(Chicago Union Transfer Ry. stock.....	18, 773. 98
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Grand Hotel Co., Council Bluffs, stock.....	466. 79
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Nicaragua Canal Construction Co., stock.....	5, 175. 50
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Indianapolis Sentinel, bonds.....	3, 090. 00
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Total investments, stocks and bonds.....

27, 416. 27

Current and miscellaneous assets:

Cash, general office.....	132, 295. 48
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G. N. Wilson, cashier reaper works.....	2, 000. 00
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(?) Twine mill contingent fund.....	450. 00
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Reaper notes and bills receivable (Schedule 8).....	22, 623, 271. 29
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(?) Bills receivable (special).....	1 279, 774. 45
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Accounts receivable, general agents' balances (Schedule 9).....	11, 546, 397. 64
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Accounts receivable sundry individuals and companies (Schedule 10).....	1, 483, 509. 28
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Total current and miscellaneous assets.....

36, 067, 698. 14

Deferred profit-and-loss items:

Paris exposition.....	122, 019. 16
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Interest paid in advance.....	36, 694. 43
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(\$4 667.13 interest accrued on Spl. B/R. was transferred.)	
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Locke pool.....	31, 994. 61
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Special report.....	11, 915. 00
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Mosher sawmill profits suspense.....	3, 063. 37
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Jas. McPhail, experimental.....	1, 850. 32
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Corn harvester, experimental.....	692. 43
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Bridge.....	200. 00
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F. Craycroft.....	179. 70
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Acme Gas Co. option.....	100. 00
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St. Louis exposition.....	41. 65
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Buffalo exposition.....	14. 57
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Total deferred profit and loss items.....

208, 765. 24

Total assets.....

56, 324, 122. 26

* \$113,630.22 not transferred.

(Not transferred excepting \$4-667.13 interest accrued on Spl. B/Rs.)

**McCORMICK HARVESTING MACHINE COMPANY: GENERAL BALANCE SHEET,
SEPTEMBER 30, 1902—Continued.**

LIABILITIES.

Capital stock.....		\$2,500,000.00
Current liabilities:		
Notes payable, short time.....	\$9,100,000.00	
Notes payable, long time.....	1,809,371.66	
Special surplus (S. McC.).....	300,000.00	
Accounts payable (Schedule 11).....	1,080,274.31	
Pay rolls (Schedule 11).....	152,570.49	
Unclaimed wages.....	2,691.41	
E. B. McCagg mortgage.....	5,750.00	
Interest accrued.....	68,261.05	
Total current liabilities.....		12,518,918.92
Total liabilities.....		15,018,918.92
Surplus:		
Surplus, beginning of season 1901.....	29,917,072.84	
Add—		
Direct credits during season 1901.....	\$980,562.52	
Direct credits during season 1902.....	1,505,683.33	
	2,486,245.85	
	32,403,318.69	
Deduct—		
Direct charges during season 1901.....	580,223.44	
Direct charges during season 1902.....	275,266.52	
	855,489.96	
	31,547,828.73	
Net profits, season 1901.....	4,631,809.36	
Net profits, season 1902.....	5,125,565.25	
	9,757,374.61	
Total surplus.....		41,305,203.34
Total.....		66,324,122.26

EXHIBIT 17.

McCORMICK HARVESTING MACHINE CO.: PROFIT AND LOSS, SEASON 1902.

Gross sales:		
Machines, repair parts, etc.....	\$19,846,293.14	
Twine and rope.....	5,478,877.72	
Total.....	25,325,170.86	
Less twine discounts and commissions.....	11,343.46	
Total sales.....	25,313,827.40	
Cost of product sold:		
Cost of manufacture—		
Machines, repair parts, etc.....	\$9,841,336.30	
Twine.....	4,894,225.18	
Total cost of manufacture.....	14,735,561.48	
Cost of repairing defective machines, etc.....	58,036.81	
Purchases of twine and rope.....	17,004.20	
Total.....	14,810,602.49	
Less—		
Machines made in season 1902 included in 1901 sales....	\$121,755.70	
Repair parts and covers donated and used for repairing defective machines, etc.....	53,861.98	
Increase in inventory of finished product—		
Machines, repair parts, etc.....	1,568,718.97	
Twine and rope.....	596,048.55	
	2,340,385.20	
Total cost of product sold.....		12,470,217.29
Gross profit on sales.....		12,843,610.11
Expenses:		
Machine department.....	8,080,026.91	
Twine department.....	237,387.89	
	8,317,414.80	
Net earnings.....		4,526,195.31
Other income.....		1,152,981.54
Total income.....		5,679,176.85
Deductions from income.....		553,611.60
Profits for season 1902.....		5,125,565.25

EXHIBIT 18.

DEERING HARVESTER CO.: ASSETS AND LIABILITIES, FEBRUARY 1, 1902.

ASSETS.

1. Factory plant.....	\$3,200,759.42
2. Branch houses.....	203,839.48
3. Other real estate.....	278,242.82
4. Office furniture.....	39,144.98
5. Inventory.....	2,263,157.13
6. Spent on 1902 construction.....	7,030,700.80
7. Current 1902 expenses.....	347,032.62
8. Bills receivable.....	8,774,614.45
9. Cash balance.....	1,592,257.04
10. General agency cash working funds.....	53,978.60
11. Loans.....	3,506,500.00
12. Due from individuals, firms, etc.....	171,843.86
13. Miscellaneous accounts.....	1,595,837.66
14. Freight claims.....	32,978.94
15. Suspended banks and del. collectors.....	7,882.68
16. Sundry accounts.....	217,485.90
17. Stocks and bonds.....	39,450.00
18. Local agents' balances:	
1894.....	4,648.13
1895.....	12,661.52
1896.....	18,553.37
1897.....	7,827.81
1898.....	13,519.44
1899.....	11,489.44
1899, foreign.....	19,269.23
1900.....	23,102.04
1900, foreign.....	10,047.38
1901.....	690,667.50
1901, foreign.....	920,578.97
Patents.....	250,000.00
	<u>31,344,071.21</u>

LIABILITIES.

Miscellaneous accounts payable.....	474,714.91
Due travelers.....	70,011.41
William Deering & Co.....	2,765,811.13
William Deering, cash loan.....	2,929,346.49
William Deering, special account.....	1,484,672.89
James Deering, special account.....	400,000.00
Charles Deering, special account.....	400,000.00
Mrs. Howe, special account.....	180,408.68
	<u>8,704,965.51</u>
Contingent, Feb. 1, 1901.....	\$2,895,292.10
Contingent added for 1901.....	303,899.62
	<u>3,199,191.72</u>
Profit and loss:	
1894.....	\$166,828.20
1895.....	698,527.73
1896.....	917,122.74
1897.....	1,443,898.91
1898.....	2,830,118.68
	<u>6,356,496.26</u>
Less amounts paid P. D. M., G. F. S., & L. C. S.....	217,322.35
	<u>6,139,173.91</u>
1899.....	3,215,826.80
	<u>9,355,000.71</u>
1900.....	1,735,792.10
Deduct for Adj. Melb. A/C & Ins. A/C.....	8,874.44
	<u>1,726,917.66</u>
1901.....	2,357,995.61
	<u>13,439,913.98</u>
Capital.....	3,000,000.00
Surplus.....	3,000,000.00
	<u>31,344,071.21</u>

EXHIBIT 19.

DEERING HARVESTER CO.: PROFIT AND LOSS, FEBRUARY 1, 1902.

Inventory of machines, twine, and extras on hand at factory and in the country as per stmt. 2/1/1901		\$3,582,504.62
Oil inventory 2/1/1901 plus oil purchased in 1901		53,371.52
Machines and extras taken back and applied on accounts in 1901		31,981.80
1901 construction account		8,589,333.90
		<u>12,257,191.84</u>
Deduct:		
Inventory machines, twine, and extras on hand at factory and in country as of 2/1/1902	\$2,263,157.13	
Inventory of oil 2/1/1901	16,234.98	
		<u>2,279,392.11</u>
		9,977,799.73
Selling costs	2,416,089.99	
Collecting costs	377,942.69	
Advertising	131,990.73	
Salaries, C. D., J. D., & R. F. H.	15,000.00	
Patent expense	68,509.44	
Loss and discount	43,922.42	
Loss and discount, special merchandise	4,580.45	
Benevolent account	2,487.00	
Insurance	4,760.74	
Foreign real estate	1,100.58	
General expense	13,081.72	
		<u>3,084,465.76</u>
Total debits		13,062,265.49
Merchandise sales	17,034,419.58	
Oil sales	67,957.13	
Interest balance	74,658.25	
		<u>17,177,034.96</u>
Commissions on extras, com.	\$156,872.52	
Commissions on extras, net	13,569.60	
Gratis com., extras	83,856.45	
Gratis net, extras	22,618.81	
Allowance on oil	9,037.89	
Freight allowed	700,860.26	
Allowances	291,259.65	
Discount for cash	174,799.06	
		<u>1,452,874.24</u>
Net sales		15,724,160.72
Gross profit		2,661,895.23
Contingent, 2/1/1902	3,199,191.72	
Contingent, 2/1/01	3,095,751.08	
Less deducted on a/c Melbourne stock	200,458.98	
		<u>2,895,292.10</u>
Contingent from 1901 profits		303,899.62
1901 net gain		<u>2,357,995.61</u>

EXHIBIT 20.

DEERING HARVESTER CO.: ASSETS AND LIABILITIES, JANUARY 31, 1903.

ASSETS.

Factory plant.....	\$3,354,714.55
Branch houses.....	226,495.26
Real estate.....	311,341.76
Inventory.....	3,469,380.93
Bills receivable.....	13,511,864.85
Cash balance.....	778,822.94
Loan account.....	500.00
Due from sundry firms.....	37,424.72
Miscellaneous accounts.....	7,325,134.46
Freight claims.....	45,060.10
Suspended banks and delinquent collectors.....	6,501.82
Sundry accounts.....	30,107.64
Stocks and bonds.....	339,579.29
Net ledger accounts:	
1894.....	2,615.46
1895.....	10,969.70
1896.....	15,088.24
1897.....	6,180.27
1898.....	10,767.08
1899.....	9,148.15
1900.....	10,431.28
1901.....	34,379.56
1902.....	8,826,793.18
Foreign ledger accounts:	
1899.....	10,207.15
1900.....	10,047.38
1901.....	43,135.09
1902.....	2,051,172.72
Patents.....	250,000.00

40,727,863.58

LIABILITIES.

Accounts payable.....	2,593,006.53
Bills payable.....	3,061,527.45
Sundry accounts payable.....	62,570.76
William Deering, cash loans.....	3,000,903.69
William Deering.....	2,820,874.43
William Deering & Co.....	62,082.60
William Deering, special.....	1,912,891.10
Charles Deering, special.....	409,750.00
Mrs. Howe, special.....	184,806.14
Contingent, 1902.....	3,199,191.72
Loss and gain.....	\$13,236,318.23
Loss and gain, 1902.....	4,183,940.93
Capital.....	17,420,259.16
Surplus.....	3,000,000.00
	3,000,000.00
	40,727,863.58

EXHIBIT 21.

DEERING HARVESTER CO.: LOSS AND GAIN, JANUARY 31, 1903.

Inventory machines, twine, and extras on hand at factory and in country February 1, 1902.	\$2,263,157.13	
Oil inventory, plus purchases in 1902.	74,405.75	
Machines, extras and twine taken back and credited agents' accounts in 1902.	48,937.35	
Factory account for 1902.	13,289,791.31	
		15,676,291.54
Deduct:		
Inventory machines, twine, and extras on hand at factory and in country as of February 1, 1903.	\$3,469,380.93	
Oil inventory, February 1, 1903.	13,821.72	
		3,483,202.65
		12,193,088.89
Add:		
Selling costs.	2,555,197.00	
Collecting costs.	386,397.74	
Advertising.	147,246.49	
Salaries.	10,000.04	
Patent expense.	5,890.08	
Loss and discount.	53,383.74	
Loss and discount, special merchandise.	2,550.63	
Benevolent account.	1,925.00	
Foreign real estate expense.	1,963.97	
General expense.	17,545.68	
Marine insurance.	95.28	
		3,182,195.65
Merchandise sales.	20,820,719.72	15,375,284.54
Oil sales.	94,360.41	
	20,915,080.13	
Deduct:		
Commissions on extras, com.	\$172,618.70	
Commissions on extras, net.	19,644.49	
Gratis extras, net.	23,667.68	
Gratis extras, com.	108,305.33	
Allowance on oil.	7,907.23	
Freight allowed.	728,189.53	
Allowances on mach., &c.	286,165.22	
Discount for cash.	181,348.27	
		1,527,846.45
Net sales.		19,387,233.68
Add:		
Interest.	145,775.46	
Switching.	5,406.96	
Rent.	1,102.60	
Dividends.	19,706.77	
		171,991.79
		19,559,225.47
Profit for 1902.		4,183,940.93

